

Special Edition

12th April 2015

Dear Owners and Investors,

Today is all about the rental market and getting my crystal ball out to make my predictions for the next twelve months. Now you have to have just a small amount of faith in the crystal ball.

Yes, I have said it before, if it actually did work we would have seen the GFC coming and sold up everything back in 2007 and would still be on that cruise ship drinking cocktails. The great majority of our investors have units so this will be the main focus of this newsletter. I am going to back track slightly as there are many investors on this newsletter that are new and may not know the history of the market.

Although there was a building period in the late 1970's to early 1980's, Cairns really was a country town up until this point. The first real building boom that Cairns experienced was between 1989 and 1995. The main type of building that occurred in the unit market was high density but budget styled accommodation. This varied in size from a 8 units, with the largest being around 45 units. They were besser block construction and the highest was 3 levels as the developers didn't want to put in lifts and this is the highest they could build without them.

There was a huge dip in the market on the sales level that went from 1995 until 2003. In terms of price drop, it would be similar to the drops we have seen in this current cycle. On average you could pick up a property for about 40% less than it would have sold at the peak in 1995. Interestingly Ramon and I came into the market in 2000 and even in the down times of this cycle we never really struggled to get any properties rented. It was a totally different rental market to the one we are currently in.

Cairns experienced a building boom and increased sales market between 2003 – 2008. The type of developments were different. There were the high rise inner city developments, huge luxury resort developments like Cairns One and many on the Northern Beaches. These were upper end developments and totally different to the buildings that were completed in the 1990's. There were actually very few "budget style" accommodation that would built in this boom.

Cairns has been in a downward spiral since the GFC and this time it has hit the rental market as hard as it hit the sales market. Although times are better now, they aren't as good as they could be. I know I keep saying it, but you just can't pick the market, what it is doing or why. We had a two bedroom unit at Palm Trees Apartments that came up. We have been advertising it for the past two weeks and I really felt like I was trawling in the bottom of the barrel again. Even then we only showed two people through and neither of them I really would want to rent to.

On Tuesday of this week in the afternoon we were contemplating doing some upgrades to the unit to make it present well. The carpets are old and just awful and really should be replaced but I don't have the contractors right now to do that work so I was trying to rent it out as is. I didn't think it was the carpets as really I had only shown two people and they didn't make comment on it. I don't know if it was the lead up to the Easter break, school holidays starting or what, but it really was very quiet for the past two weeks. Then on Wednesday the phone went mad and we showed 6 people through and have two good applications, with one of them moving in on Friday – GO FIGURE!

Below are the historical rents, rents we are currently achieving and my crystal ball predictions – remember cruise ship – did I ever mention that we just love to go on cruises? For my predictions I am going to assume that a normal building cycle will occur in Cairns – not Aquis as this is a whole different prediction. By this I mean the development at Nova8 on Spence Street goes ahead as well as other larger projects. This will then spur on the housing building market and this will really have our building industry up and running.

I have assumed that the property is well presented internally, is fully furnished with nice furniture (not expensive just Amart stuff) and is air conditioned.

Bedsit units – open plan units 40 square metres in size with their own laundry facility

Pre GFC – \$155 at the very peak

During the GFC – \$135 – 140 at the very bottom

Current Rent – \$180 – yes, \$180 we just rented two of them at this level so this is the new bench mark.

Predicted rent by December 2015 - \$200

Predicted rent by December 2016 – \$230

One bedroom units – approximately 50 square metres in size

Pre GFC – \$170 - 180

During the GFC – \$160 – \$170

Current Rent \$190 – \$200

Predicted rent by December 2015 – \$230 – \$250

Predicted rent by December 2016 – \$250 – \$260

One bedroom loft townhouses – approximately 55 square metres in size with carport at front door and courtyard to rear.

Pre GFC – \$180 - 190

During the GFC – \$170 - 180

Current Rent – \$230

Predicted rent by December 2015 – \$260

Predicted rent by December 2016 – \$270 – \$280

Two bedroom units – approximately 70 square metres in size

Pre GFC – \$230 – \$240

During the GFC – \$200 – \$220

Current Rent – \$250

Predicted rent by December 2015 – \$270 - 290

Predicted rent by December 2016 – \$300 – \$320

Two bedroom duplex half – with fenced yard and will accept pets

Pre GFC – \$230 - 250

During the GFC – \$220 - 230

Current Rent \$240- 260

Predicted rent by December 2015 – \$270 – \$300

Predicted rent by December 2016 – \$290 – \$330

I know many of you will be reading this going no way – not a chance. Here is my logic on why I believe we will see such significant increases in the rents.

There is limited accommodation in Cairns that is available for rent. If you do a search on www.realestate.com.au which as much as I don't like them, they are the main way rentals are advertised in Cairns.

There are currently just 799 properties available to rent. This covers the region from Gordonvale in the south all the way up to Palm Cove in the north. It includes everything from a share house up to a luxury home. Given our base population is 155,000 this really isn't a lot of rentals.

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

If we get a building boom happening, even on a small scale and this will create just 500 jobs in the building industry, it will then create other jobs in areas like delivery drivers, material suppliers, then it will get the retail industry working as these people will have families that come with them and they will be spending money in the community, which will then create more jobs.

The great majority of people that will be coming to Cairns will be renting property rather than buying so this will put pressure on the existing rental pool.

One of the key issues for selling has been the high cost of body corporate and most investors have steered away from anything in a body corporate. As the rents go up, this will make the property more attractive and more than cover the increases we have seen. They will continue to push the rents up as it is all about numbers.

The fact we have had no real building in the past 8 years means that the supply of available rental property has now been absorbed into the market – there aren't a surplus 200 units sitting around unrented.

Most high density development will not really start to be built until the sales market increases significantly. Why would a developer go and build a block of units when you can buy a similar unit for about 30% less than what it will cost him to build, let alone putting in a margin for a profit. Even if there were some one around that thought it would be a good idea to develop, the bank would probably not lend to them as they know the market and the risks.

When the sales market does reach a point where developers start to see potential, it will still take many months to source the land, get the plans drawn up, get it through Council approval and then start the building. Let's assume it will take 6 months for this part, then they actually have to build it (bringing in more people into town that need accommodation) and this will take a further 12 months to get it to a point where it can be sold and lived in.

When we start to consistently achieve the higher rents, we will see pressure being put on existing tenants and they will start to receive increases. Those that are working may be able to cover the increases, however I am not so sure those on Welfare will be able to and this may see the push to the outer edges of the City, particularly on the southern corridor. As the rents go higher, many will leave Cairns and either go to the Tablelands or south towards Innisfail.

As the rents do go up, there will be many investors like us that will start to think about putting the property on the market to sell. Ramon and I personally vacate the property prior to a sale and go in to do the small visual improvements required such as painting, curtains, lights and fans. We do this for two reasons – access to the property for potential buyers is easier and by this stage owner occupiers will start to come back into the market.

Most people don't have vision goggles and when they walk in and see the tenants dishes in the sink – this is all they see. They don't see the kitchen and its potential, they don't visualise their furniture in the unit – all they see is the tenants things. Many investors are the same. We would only do this when we are sure we will get the price we want and it will sell quickly – right now this isn't the time to sell.

There are very few owner occupiers in the bottom end of the unit market right now, actually there are very few owner occupiers in the unit market at all. This is for many different reasons but as the market increases they will start to want to get into the market whilst they still can. They will soon realise they can't afford a house or even a duplex half so the best they will be able to buy is a unit. They will then see they can't afford a flash one in the City so they will start to look at the stock that was built in the boom between 1989 – 1995. When this happens it will take further stock out of the rental pool – putting more pressure on the vacancy rate.

It really comes down to two words – SUPPLY and DEMAND. For the past 7 years there really have been more properties available than potential tenants and the ball has been in their court. Right now we are starting to see the shift towards a tightening rental market. To highlight this, the link below is for all available rentals in Cairns below \$250. There are just 159 – and believe me many of them I wouldn't want to live in.

<http://www.realestate.com.au/rent/between-0-250-in-cairns+-+greater+region,+qld/list-1?activeSort=price-asc>

The key thing to remember is that if you want to achieve the higher rents, then you have to have the property presented well. You won't get a good tenant, paying good rent when it presents badly.

There are signs in the sales market that things are starting to change. I can't tell you the last time a development property came on the market – or at least one that had a chance of being sold. Below are two of these examples.

<http://www.realestate.com.au/property-house-qld-manunda-119519603?cpmessageid=164403494&rsf=emailalert-propdetails>

This is a new sales listing for three houses in a row in Manunda. These would be ideal to demolish and build new units on. I haven't seen listings like this for some time as no developer would think about buying it, and no seller would dream of taking the ridiculously low offer a developer would take if he had the capacity to hold long term.

<http://www.realestate.com.au/property-house-qld-bungalow-119514475?cpmessageid=164224488&rsf=emailalert-propdetails>

This is another one on Spence Street, Bungalow. They are asking \$495,000 which no one wanting it as a normal house would pay. It is the 1214 metre block and development potential that they are buying.

The big thing that really could change the fortunes of Cairns will be Aquis. If it goes ahead and is just a BILLION dollar project, rather than an EIGHT BILLION dollar project it will have a huge impact on Cairns and change the market forever. The media still has it in the paper every few days with this being the latest story

<http://www.cairnspost.com.au/business/treasurer-curtis-pitt-opens-door-to-speed-up-aquis-approvals-for-cairns/story-fnjpusdv-1227299231075>

There you have my ramblings and predictions. Time for the fun stuff – tenant stories. Ramon and I have a loft town house in Tropic Gardens and we have had the same tenant in place for about ten years now. Just prior to her moving in we painted it and made the silly mistake of putting down those timber floating floors. Sure they may look good, but seriously they just don't work in rental properties, particular those located in the wet tropics. The moisture gets into the boards, the tenants don't really know how to look after them properly and just the smallest amount of water dropped and left will damage them.

For example a tenant going out and leaving the back glass sliding door open and a rain shower comes through soaking the floor – yes it did happen.

When this tenant went in, the rent was really low at \$160 per week – which was the market at that point in time. We did put it up but right now she is still only paying \$175 per week. A similar one in the complex we have just rented for \$230 so we decided it was fair and reasonable to give a rent increase to \$200 per week. Now when we do give out a rent increase three things have happened in the past. Firstly nothing, the tenant understands and accepts it. Secondly they call to say that it is fair and reasonable and they understand that everything has gone up. Thirdly they call up to give us a list of work to do in the unit – as it is only fair if they are paying more rent that these things should be done.

This is exactly what has happened in this case. Ms D called to say the floors really were in poor shape, and that part of the reason is a slight leak from the back of the shower. I sent Bart the Wonder Handyman and his trusty assistant Katie to have a look for me. There is no way we can remove the existing floor and put down new floor – she has been there for 10 years and has lots of stuff. The showers in this complex have been a constant issue as they weren't water proofed correctly and do leak at the back of the taps, which then goes into the lounge area.

I called Ms D to have a general chat about different options. I asked if she had thought about moving to a bigger unit, or maybe even look at buying. This is when she told me that her and her partner (yes, they both live there) just couldn't save enough money to buy a unit although they have tried. Really – the rent has been ridiculously cheap at \$175 for the past few years and they couldn't save enough? Ms D's suggestion was that they were going away for 8 days, we could get in and do the floors and replace the shower, and repair the wall and have it ready for when she came back. They would move the furniture upstairs for me – at least there was that.

I did let her know that there was a unit we were renovating pretty much the same as hers in a nicer area, and she could move to this as soon as we have finished it. The rent would be \$230 per week as we are going to upgrade this one nicely. Although she took the address, I don't believe she will look at it.

So the nuts and bolts of it is – Ms D wants us to spend \$1500 plus on new flooring, who knows what on the shower repairs, have it all done within 8 days and she still only pay \$200 per week. Last week I wrote about “good tenants” well this is one example. Ms D has been a good tenant, she has paid the rent each and every fortnight, she has looked after it beautifully inside, there has never been a problem with the neighbours – but at the end of the day Ramon and I have been funding her at least \$25 each and every week for the past few years. Right now, we are probably funding more like \$40 per week – which I would rather put towards a cruise for us – did I mention I love to cruise?

The hard decision has to be made, and unlike the chicken that I used to be a few years ago, I will tell Ms D that her options are move to another unit that has been renovated at \$230, move to another property we have – or move out completely. I am not looking forward to it, but at the end of the day Ramon and I have worked incredibly hard for the past 15 years, it should be us that is reaping the rewards not our tenants in cheap rent. There are many other “good tenants” out there that will look after the property and pay the rent and pay us \$230 per week, so as sad as I will be to see her go, I need to look after us now.

I will finish with Ms R who has been the bane of my life for many years. Ms R at heart is a beautiful soul, but has had a very difficult life that has been full of drugs, alcohol, abuse and mental health issues. She has a beautiful little girl called Ms C and if I am totally honest it is Ms C that has been the reason I have persisted with her. Ms R is loud, foul mouthed, hot headed and gets neighbours off side quickly.

On the flip side, she is kind, will go out of her way to help you and for me as a property manager is incredibly proud of her house. The main issue for years has been the payment of rent. It always gets paid, but it is always late – I think we have cracked that now but for how long this continues I don't know.

Her Mum has bailed her out more times than I can count and a few months ago Mum came into our office to see me. She thanked me for keeping a roof over Ms C head, as the only reason she persists with Ms R is for the little girl.

Ms R is now in rehab and has been clean and sober for months now. Yesterday morning she called to say she had lost her key and if I could drop a spare off to her as she can't lock up. I was working yesterday at the office – I know working on the weekend sounds bad but I get three days work done on a Saturday as there are no phones, no people, no interruptions. Everyone else is out there having the weekend off! Anyway, it was late by the time I was heading home and I was going to drop it off on Sunday morning but as I was passing I thought, no get it out the way tonight.

By this stage it was 9.30pm and I could see the lights were on but I didn't want to knock on the door so I sent her a text to ask if she was home. She said yes, so I sent back that I was at the front door. She came out and I checked the keys, having a good look around and as usual it was spotless – don't come to our house unannounced as it won't be this clean. We now have a good relationship and I get straight to the point:

Me – You still off the gear?

Ms R – Yep, still going to the meetings and going good

Me – You keeping out of trouble?

Ms R – Keeping to myself, don't want to get involved in idiots

Me – You paid the rent?

Ms R – Got four weeks going in next week that will put me in front again.

Me – You looking after Ms C

Ms R – She is doing great at school

Me – OK got to go

Ms R – Thanks for the key

Me – Remember stay clean and out of trouble or I will be annoyed

Ms R – OK

I know that she has been a pain in my side and every time the phone rings and I see her number I roll my eyes, even Ramon rolls his eyes as he knows it will be a drama. Have we made a difference to her life, and more importantly Ms C – yes as it has given her stability to grow up in the same safe environment. I hope the Big Man in the Sky is watching and taking notes.

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

Linda Tuck