

Special Edition

20th September 2015

Dear Owners and Investors,

Being a property manager as well as investors ourselves – it has been an interesting learning curve. I have had to learn to balance the needs and wants of the tenant, against the needs and wants of the owners and then the needs and wants of the property – and let me tell you this hasn't been easy.

This is now speaking generally about the properties that we manage. Most of us purchased them between 2000 and 2005 and the great majority were units in body corporate environments. At this stage they were under 15 years old and in relatively good presentation internally. Up to 2007 we were able to use the magpie method – put nice shiny things into the unit and the tenants would look at these rather than the overall presentation. We could get away with the carpets not being new, we could get away without repainting all simply by putting in new furniture and curtains. Up until the GFC we were actually lucky that so long as it presented half decently it would rent and quickly. To be honest up to this point in time my message was “if it is vacant for any length of time, then we will look to do upgrades”. They never were and therefore we did very few upgrades prior to the GFC.

Along came the world melt down which was then further complicated by high insurances and all the other things that happened in Cairns – we all know the story and have been living through it now for the past 8 years. Our message during this time has been “even if it needs the upgrades, you are better to drop the rent and get it rented rather than spending the money on the property”. The main reason was we very probably couldn't get you a good tenant that would actually look after the property. No point in spending money on repainting if after a few years you will have to do it again. It was better to simply rent it for \$10 less and get someone in to pay the rent.

Aquis is still in the news – but until it actually happens I am not going to get excited.

<http://aquiscasino.com/aquis-extends-options-over-yorkeys-knob-site/>

<http://www.brisbanetimes.com.au/queensland/8bn-cairns-casino-project-revived-20150918-qjqbaz.html>

The Queensland State Government seems to be making the right noises to get this back on track, let's see what happens from here.

The big one that will make a difference to the Cairns economy and turn it quickly is when the Aspial project starts. There was a redesign submitted to Council to change the parking from underground to above ground. The civil works should be starting soon I would hope. As someone said to me recently – a crane in the sky will breed other cranes.

<http://www.cairnspost.com.au/business/redesign-of-aspials-nova-tower-to-be-voted-on-by-cairns-councillors/story-fnjpusdv-1227515287870>

The economy hasn't turned as much as I would like, but we are in a much better space than we were 12 months ago. The rents are moving higher, the quality of tenants is better but let's not sugar coat it, things are not as good as they were or should be 8 years after the GFC. I still manage to rent out the properties and generally they are good tenants that will look after the property – but boy do I have to search hard to find them.

Right now Ramon and I are taking the tact that when our personal properties do become vacant we are upgrading them as much as possible. This mainly is painting, floor coverings, curtains and vanities. We aren't doing kitchens and bathroom renovations as in most cases this isn't really required. Our thoughts are that the properties are now at a point that if I leave them in the current presentation I am only going to attract the bottom of the barrel. I can also get the work completed by contractors for a great rate but more importantly they can do the work pretty much straight away. I don't have to have the property empty for a month waiting for the painters or tilers.

When we do these upgrades, we aren't always guaranteed of a higher rent, but we do at a minimum get a better quality of tenant. For us, we are positioned to take advantage when the rental market does move. I just did a search for rental properties \$200 and under that are fully furnished and there are just 17 of them available – and most of these are rubbish. Ours stands out and it will rent quickly.

Living in Cairns is hot and the summer is fast approaching. This means that today newsletter is all about AIR CONDITIONING! Although many of you still will have your winter wardrobe out, it is almost time for us to put away our short sleeve cardigans and get back into summer clothes. Personally, we don't have air conditioning in our house, and this is OK for us - but it isn't OK for our rental properties. There are some things in property management that I hate doing and air conditioning problems is one of the worst. By the end of this email you will understand why I don't like air conditioners.

Over the years we have learned that there are three basic groups of tenants when it comes to air conditioning.

The ones like us that don't want to use air conditioning for many reasons – just don't like it or don't like the cost of using them.

The ones that use it when it gets hot at night, just to cool down the bedrooms so they can sleep
Those that like to live in a fridge and use them all day, every day even in winter.

This is going to be a bit of a history lesson on air conditioners and by the end of it, you will know just about as much useless information on them as I do. I am doing this as a guide for owners – actually I am telling a white lie, this is going to be the email that I send out each time one breaks down so I don't have to retype it!!

Most of the properties that we are involved with have some sort of air conditioning in them already – but the reality is they are now getting on with age and will start to break down. This can be for a number of reasons but the two main ones are the gas has escaped and it isn't worth the cost of fixing or something has failed like a capacity or an electrical board. The number one killer of air conditioners with electrical boards is GECKOS. They sit on the board at the exact time that it is turned on and they fry not only themselves but the board. Not much you can do about this and it is just part of life in the wet tropics. Depending on the make and model it may be possible to fix – but in most cases the cost of fixing it will be more than putting in a new unit.

There are two options we look at – box air conditioners or split systems. Yes there are ducted air conditioners, but not for the sort of properties we look after, and certainly not trying to retro fit them!

<http://buyingguide.thegoodguys.com.au/air-conditioner-buying-guide/>

The above link is a good guide on all things air conditioning and what you need to know before you buy.

I will go through my understanding of sizes and what they will cool. The size of air conditioner is either in BTU – British Thermal Unit or Kilowatts. I will give you both.

9,000 btu or 2.63 kw will cool a small room of approximately 16 square metres

12,000 btu or 3.5 kw will cool a big bedroom or a bedsit unit at a push. This is approximately 22 square metres of cooling.

18,000 btu or 5.27 kw will cool about 30 – 35 square metres. This isn't a size we use often, and I will explain why further down.

24,000 btu or 7.03 kw will cool approximately 42 square metres – an open plan lounge kitchen area

30,000 btu or 8.79 kw will cool approximately 60 square metres

Box Air Conditioners – let's be honest, if we were upgrading at own personal house, we wouldn't put these in. They are noisy, cost alot to run and aren't anywhere near as efficient at cooling down the property. What we need to remember is that this is an investment and we need to treat it as such. Replacing a box with a box sometimes can be easy but other times it isn't easy and then there are times that is just isn't possible.

Back about 10 years ago now, the manufacturers decided to change the dimensions of the casings for the boxes. Basically they super sized everything – which has made it difficult at times to replace an existing box with another one. For example the current box air conditioner that has just died is 12,000 btu but the hole that it has now will only take a 5,000 btu – so it won't cool down the property.

The new sizes for box air conditioners are

5,000 btu – 345 x 450

7,000 btu – 375 x 560

9,000 btu – 375 x 560 – \$540

12,000 btu – 430 x 660 – \$635

I don't get bigger box units as they aren't really made much bigger and over the 12,000 btu size you need to have a 15 amp plug. This basically means that you can't just plug it into an ordinary power point as these are only 10 amp plugs.

If you get a 5,000 btu, it may fit into the existing hole but boy is it going to have to work hard to cool down the bedroom. We don't buy many 7,000 btu's as the hole size is the same for the 9,000 btu and it is a more powerful unit. The 12,000 btu is what I try to put in where possible.

The best way I explain it is that if you have two cars that are driving up to the top of the mountain, they will both get there eventually. One is a 3 cylinder buzz box and the other is a V8 super car. Yes, both will get there but one is going to breeze through it whilst the other is going to have to work incredibly hard to do the same job.

Box air conditioners will either go into the wall – photo attached or in the window. In the photo this was the original unit that is in the bedroom. This was installed 20 years ago by the developer and it is a 9,000 btu. The size of the current unit is 345 x 450. I can get a box to fit into the current hole, but it is going to be a 5,000 btu. Yes, it will cool down the bedroom but it isn't going to be efficient to run, and it is going to have to be on a long time to cool and keep the room cool. The hole for the new 9,000 btu is 375 x 560. The wall is solid besser block that has been core filled with concrete and reinforcing rods so you can imagine making the hole bigger isn't going to be a simple exercise.

I essentially need to make the hole 30mm higher and 110mm wider. The issue is that I have to have a minimum of 200mm of wall on either side of the unit to keep the structure integrity.

Here is another bit of useless information, each of the besser blocks in the picture is 400mm wide x 200mm high. By looking at this picture I can guess that I have 200mm currently to the left of the unit, and only about 350 mm to the right. This means that I could cut some of the wall and install another 9,000 btu in the wall and still have 200mm left.

This is all good in theory, but when the air conditioner dies whilst the tenant is in place it is not that easy in practicality. I have a great contractor that can come in with a special concrete saw that has a vacuum that sucks most of the dust – but there will be dust that will go through the unit. Even though I explain this to the tenants and they say it is fine, in most cases it is a drama for me when the job is completed. The other issue is that the contractor needs to be able to get to the brickwork from the inside as well as the outside. In this units case it is possible as this is on the first level and there is a concrete landing outside. For the unit above it isn't possible as it means scaffolding and the cost is prohibitive.

The other option if we can't make the hole bigger is to put it into the window. What this means is that once it is in place, the tenant can't open the window to allow air through. It is permanently shut in place. Above the air conditioner we can either put in glass as the photos attached, or sometimes we put fibro cement sheeting that is painted. Depends on the situation which one we do. This is my last option as it does mean that curtains are a pain, the window can't be opened and it is just not as nice visually. If putting a good sized air conditioner in the room is what I want and this is the only choice other than a split air conditioner then I use this option.

Let's use the example of where the hole from the old air conditioner is the same as the new one. This is a very simple process to change over. Bart the Wonder Handyman and his trusty assistant Katie go down to see the team at the Good Guys, pick up the new box air conditioner, take the old one out including the old frame work. They then put in the new outer casing securing it into the wall and then slide in the new air conditioner in, plug it in and away we go – happy tenant, happy owner and happy Handyman as it is easy. The cost of installing this is \$150 depending on the amount of work and materials required. Sometimes we have to frame out the surround – put a timber frame around it on the inside as it isn't exactly the same size and there is a gap.

If we have the wall space to cut more wall out to fit in the bigger unit, we call in the team of concrete cutters and this will be about \$110 - 150 to cut the wall and take the debris away. We then have to actually fit in the box air conditioner. The cost all up will be somewhere between \$250 – 300.

If we can't make the hole bigger and we have no choice but to put it into the window, it will cost about \$150 – 200 depending on the size of the glass we have to put in. This is assuming I have a window to put it into. A bedsit at Palm trees doesn't have a window, there is only a glass sliding door, where as City Park has a wind out window as well as a sliding door. The issue is that this wind out window is too narrow to put in the new super sized 12,000 btu air conditioner so we are back to square one – did I ever mention how much I dislike air conditioners?

All the box air conditioners don't require an electrician as we are going to simply plug in the air conditioner into the existing nearest power point.

There are some times that putting a box air conditioner into the property just isn't possible, and this is when we go to the split systems. In my experience, the older box units and even the new box air conditioners just work and work. They have far less issues long term, and the failure rate is much lower than split systems.

<http://suburbansplits.com.au/installation/installation/>

This is a quite a good website and explains lots about split system air conditioners.

Most unit installations we try to be back to back – this is where the inside head is on the wall and the outdoor unit is no more than 3 metres away – remember the piping coming down the wall counts. This is the cheapest installation as the more piping you need, the more it is going to cost.

Sometimes this just isn't possible – there may not be enough wall space available as there is a door way, the unit will work better in a different location – each installation is different.

Most of the brands come with a 5 year parts and labour warranty. If you buy through a electrical retailer, you can buy an extended warranty option. For any other white goods, I don't take this option but for split systems I would definitely pay this money. I can't count how many of the split systems fail right on five years. Sometimes we are lucky and it is within months of the five years – and others we aren't so lucky. Most times when the units get to this age they don't have parts and if it is still in warranty they will come out and install a brand new one. If you are unlucky to be outside this warranty period, you have no real choice but to buy and install a brand new one.

One of the reasons I don't like installing split systems is the cost of the actual installation. Where as I can get a box installed for \$300 including the cutting of the wall and installation, the minimum a split installation will set me back is \$550.

These prices to buy the unit is from the Good Guys for the Kelvinator and Fujitsu, the Daikin is from another source.

9,000 btu or 2.63 kw – Kelvinator \$550	Fujitsu \$599	Extended Warranty \$99
12,000 btu or 3.5 kw – Kelvinator \$699	Fujitsu \$790	Extended Warranty \$99
Daikin \$830		
18,000 btu or 5.27 kw – Kelvinator \$1100	Fujitsu \$1100	Extended Warranty \$119
Daikin \$1280		
24,000 btu or 7.03 kw – Kelvinator \$1150	Fujitsu \$1350	Extended Warranty \$119
Daikin \$1590		
30,000 btu or 8.79 kw – Kelvinator \$1750	Fujitsu \$1750	Extended Warranty \$129
Daikin \$2080		

The 9,000 btu is suitable for an ordinary sized bedroom, but not a big master room. The bedsit units you can get away with a 12,000 btu

Now this is where it starts to get complicated – once you go over the 12,000 btu size, you no longer can use a 10 amp plug. In the installation of these two sizes, the electrician will run up the power from the nearest power point and take this to the outside – it is neat and easy and there are no power cords inside.

Once you go over this size they have to run a whole new electrical cable from the mains board to where the unit is being installed – are you starting to understand why I hate air conditioners?

Depending on the style of property, you may be able to get up into the roof space and run the new cables inside the roof cavity and drop it down to where they need to go – but when you are the middle unit with a concrete ceiling – you then have no choice but to run conduit under the cornice work.

Easy enough if the power board is in the same room, but when it's not then you have to somehow get the power to the new air conditioner from the board. Not only is this less attractive but a pain for the electrician and costs more to get done.

We don't generally bother to install the 18,000 btu size as the cost is just about the same to go up to the 24,000 so why would you take the smaller one? You still have to run a 15 amp cable for both units, so it makes sense to get the bigger one. The 24,000 btu is what you would need for a big lounge, kitchen area like those in the two bedroom units – or for a loft townhouse as there is no way to close off the areas.

Now let's look at say a 2 bedroom unit. If you were going to install a 9,000 btu in each bedroom, this will cost to supply and install is \$1250 per bedroom, or a cost of \$2500. If you then are going to do the lounge room as well you will need a 24,000 btu and this is going to cost \$2150 – I have used the Fujitsu for all three rooms, plus the extended warranty plus installation costs of \$550 for the bedrooms and \$680 for the one with a new 15 amp cable to be installed. The cost to install the three new split systems will be \$4650. Each room can be used independently and turned on and off as required.

The other option is to look at installing a 30,000 btu unit. This will easily cool down a 2 bedroom unit. The cost for supply and installation will be approximately \$2560. This is a much cheaper option for us as investors. It will do the job and cool down the unit. The issue is that as the electricity prices have gone up, tenants are aware of the cost of running things. To be cool in the bedroom at night, you will need to leave the door to your bedroom open to allow the cool air to come in. You are essentially cooling down the whole property all night – and this is costly. Although cheaper for us, some potential tenants may not like the fact there is nothing separate in the bedrooms and may not take the property.

There is nothing to say that you must have all the areas air conditioned. If you are only going to do one area, then it is the bedroom that needs to be done. This is the most important for most tenants. They will however take note that there is nothing in the living area, and they will either not take the property or expect to get it cheaper for this.

Each property is totally different in what is there currently, what we can put in to replace it and what it will cost – now you can understand why I hate dealing with air conditioners. The reality is that Cairns is starting to warm up already. Many tenants have not turned on their air conditioning for a few months now, and when they do and it doesn't work, you can bet they will be on my case.

I would like to be proactive this year. For those of you that have issues that we know of already, I will be writing to you separately about what your specific properties requires. I have a better chance of getting the units installed quickly and also keep your tenants happy. A hot and bother tenant is not a happy tenant! Last year when it did really heat up, there was a wait of a few weeks to get split systems installed – even if the owner says yes, it is me that has to listen to the tenant until it is installed!

I hope you all now completely understand air conditioners! Now it is time for the fun stuff – tenant stories.

When a new potential client calls and asks for our fees, I know that some balk at the fact that on the surface we appear to be more expensive. How do you explain to someone that you really get what you pay for – and paying for us to manage your property is actually going to save you money in the long run? Many of you will never know what we do for each of you, and your properties as it is just something we do.

Last night was a perfect example of how different we are. We have a two bedroom unit at Scotsdale that was vacant. For some reason at the moment the two bedroom units there are more of them and they are taking longer to rent.

We did show through a few people but none would have been given the unit even if they had applied. I have a tenant that was with us at a few properties some years ago and she was moving back to Cairns with her children. She is a bit feral but I know that her Mum is there in the back ground for her and she has always done the right thing by us. The rent has always been paid, the place looked after and she is easy to deal with.

Ms J doesn't have a car and was coming up from Ingham by bus. She was arriving into the bus station at 7.30pm on Friday night – yes, you guessed it I volunteered to wait around and pick her up from the bus station, take her out to the unit and have her sign the lease up that night. There aren't many others that would do this for their owners – or their tenants. As I pulled up I could see that banking commercial “she's a breeder not a reader” and there was Ms J and her child waiting for me. Ok so Ms J is now missing her two front teeth, has a few more tattoos and promptly tells me that she had two more children since she rented with us last – but one lives with her Mum. Oh the different worlds that I move in!

Do I judge her differently – hell no, she is a good tenant that will cause me, the property or the owner no bother. I now have a happy tenant as she didn't have to find a motel that night, a happy owner who has his property rented for \$10 per week more – and a happy property manager as it is one more we have rented!

You all know that I have my “I collect old people” collection, well thank you Ms T for the donation (another property manager here in Cairns who I know reads this). I now have Mr I in my collection who is 80 and still independent. He is moving into our Viewmont unit that we are just finishing upgrading. I tried so hard not to take him on, but he was set – this is the place he wanted. He even visited the unit whilst Bart the Wonder Handyman and his trusty assistant Katie were doing the tiling and started measuring up for where his furniture would go – oh no not once, but four times!

From my point of view I know he will be a good tenant, the rent is going up by \$25 per week from the last tenant and because he has his own furniture I don't have to spend money on a new fridge, washing machine and all the other furniture. Guess I have a new one in the collection – the Big Man in the Sky had better be watching.

I was at Viewmont the other day and Ms M caught up with me. This is my Hoarder that flooded out the unit recently. We have spoken a few times on the phone since the flood and to her word the unit was cleaned up and she organised for us to come and have a look. When she was talking to me on the phone a few weeks ago she ended up in tears. Her family had no idea that her hording had become such a problem and they have now stepped in to help her. They have a cleaner that goes around every three weeks to do a tidy up and keep on top of the situation.

She has asked that we come every few months and razzle her if it starts to get cluttered again – she really acknowledges the issue and is trying her very best to deal with it. Whilst I was at Viewmont she came up and said “Is it OK to give you a hug?” What could I say but of course. Ms M was telling me just how different her life is now – on the back of her door she has the reminder list – keys, wallet, phone and take out the rubbish. Ms M still has more boxes to unpack that are on her balcony, but she is working her way through them and giving most of it to the charity shops.

It is a good feeling knowing that we are making people's lives better, but in return they are doing the right thing and actually paying off our mortgages!

To finish off, for those of you that are new to this newsletter you may not know but we LOVE TO CRUISE! The countdown has begun – 38 more sleeps to go and we board the Golden Princess bound for the South Pacific. Doing what we do at the pace we do is not easy.

I have tried the other ways to slow down, but they just don't work. The main reason is that now with technology, particularly the mobile phone I find it very difficult to find the off button. On a cruise we have the ceremonial turning off of the mobile phone on the back deck as the ship is sailing out of the harbour – I call it the Cone of Silence. For those of you too young to know what this is, here is the clip

<https://www.youtube.com/watch?v=q1eUIK9CihA>

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

Linda Tuck