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The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

Happy New Year! The property industry has been on a real rollercoaster ride over the past couple of years and we look forward to seeing how 2018 plays out. As always, we'll be keeping on top of developments in the industry that may impact insurance and ensuring that our products meet the needs of landlords and property professionals alike.

There are 109,930 people across Australia employed in real estate services (76 per cent are employees while 24 per cent are business owners), according to Elite Agent analysis of data from the ABS 2016 Census. Of these, 56.88 per cent are female and two-thirds of industry employees are under 50, with 24,823 aged 30-39, 24,846 in their 40s, 24,144 in their 20s and 30 aged between 90 and 99! Most (79.6 per cent) are city based, are married (53.96 per cent), earn an average of $71,724 a year and almost half (41 per cent) work between 35 and 40 hours a week.

And speaking of property professionals, in this first edition for the new year we're looking at Professional Indemnity insurance and discussing why having this cover in place is essential for PMs.

We also take a look at data security in light of the mandatory data breach notification requirements that come into effect on 22 February. We provide some tips on how to protect your data which can be applied to both business practices for PMs and at home for landlords to help lower your risk of falling victim to a cyberattack.

We hope you enjoy this edition of *The RentCover Report*.

Sharon Fox-Slater
Managing Director, RentCover

Once more unto the breach?

Next month sees mandatory data breach notification requirements come into play. Are you ready?

There is no denying that there have been some high-profile data breaches – from the credit reporting agency Equifax's exposure of highly-sensitive financial information to the Uber breach that saw 57 million drivers' and passengers' data (including that of Aussies) exposed and the breach covered up. But it isn't just global corporations that are at-risk. Cyber security is an issue for any business that holds personal data.

The importance of having sound data protection protocols in place is coming home to roost for real estate professionals with the introduction of mandatory data breach notification requirements.

On 22 February the new Notifiable Data Breaches (NDB) scheme takes effect. The NDB requires all organisations covered by the *Privacy Act 1988* to notify the Australian Information Officer and individuals likely to be at risk of serious harm of any data breach.

While most small businesses (those turning over less than $3 million per annum) are exempt from the scheme, any business operating a residential tenancy database must comply with the requirements imposed upon Australian Privacy Principle (APP) entities, who have an obligation under the Privacy Act (APP 11) to protect the personal information they hold.

Real estate agents/property managers will be required to comply with the NDB scheme, but only in relation to personal information held by the entity for the purpose of, or in connection with, the operation of a residential data base. The Office of the Information Officer defines a residential tenancy database as: “a database that stores personal information about individuals occupying residential premises as tenants and is accessible by a person other than the operator of the database or a person acting for the operator”.

A data breach occurs when personal information held by an organisation is lost or subjected to unauthorised access or disclosure, for example when:

- a device containing customers' personal information is lost or stolen
- a database containing personal information is hacked
- personal information is mistakenly provided to the wrong person.

Failure to comply with the requirements can result in a range of consequences from public apologies, compensation payments and, for serious breaches or repeat offenders, civil penalties. Civil penalties are currently $360,000 for individuals and $1.8 million for bodies corporate.

As an agent you handle private information that is appealing to hackers who can use that information to make money or mischief. Regardless of whether your real estate business is subject to the new legislation or not, protecting your and your clients' data is just good business.

To help keep data secure, look at employing these tips:

- Security software
  Install security software that includes a firewall, anti-virus and anti-spyware on company-supplied and BYO devices. Always install the security updates/patches on all devices (if a single team member doesn't update their devices, it can compromise your whole network). Run weekly anti-virus and malware scans. Many smartphones/devices have factory-installed security measures (such as encryption) that most users fail to use, so switch them on.

- Passwords
  Regularly change them; don't share them; use strong ones with a mix of upper and lower case letters, numbers and symbols; consider using passphrases instead; don't use the same one for multiple devices/accounts. Use multi-factor authentication where possible.

- Wi-Fi
  Change the default password on your Wi-Fi router and hide the SSID (Service Set Identifier, most Wi-Fi modems and routers automatically and continually broadcast the wireless network name). Encrypt all inbound and outbound data. Secure your wireless network. Be careful when using public wireless networks and avoid making online transactions when using public or complimentary Wi-Fi. Consider using a VPN.

- Back-up
  Make sure you regularly back-up all data using multiple platforms e.g. on a portable hard drive and to the cloud. Avoid storing sensitive information in the cloud (only use cloud services that encrypt your data and encrypt your data before uploading it to the cloud).

- Protocols
  Ensure employees understand security basics – recognising cyber risks (including scams, spam and phishing), best password practices and handling confidential information. Create policies for cyber security and have regular audits to ensure there are no weak links.

- Access
  Restrict administrator-level access for installing hardware and software. Only give employees access to the information/systems that they need to do their job. Don't use USBs and external hard drives from an unfamiliar source. Be mindful of who has access to your system (employee BYO devices are leading sources for breaches). Secure your portable devices (lock them with a PIN and install all the right protection software) – data can be stolen in an instant without the device leaving your side. Securely store portable storage devices when not in use.

REA Group and staysmartonline.gov.au have put together a security guide for real estate agents offering additional tips and a checklist.

Data breaches can have serious ramifications for your business – financial, operational, legal, reputational – making risk mitigation a necessity. EBM's Cyber Liability experts can help assess where your data security vulnerabilities lay, develop strategies to minimise risk with best-practice privacy protocols and discuss the options in transferring risk with insurance.

P.I. – no not Magnum but for PMs

The need for Professional Indemnity insurance is a given for real estate agents. But many don't realise they're more likely to need to claim for the property management side of the business than they are for sales.

As part of their licence to operate, agents may need to hold professional indemnity (PI) insurance (also sometimes referred to as Errors & Omissions cover). PI is designed to protect agents against legal costs and any claims for damages from third parties which could arise from an act, omission or breach of professional duty in the course of their business (i.e. if the agent is accused of negligence, misleading or deceptive conduct or similar).

It's a common misconception that agents only need to hold PI to cover their sales work, when in reality most PI claims stem from the property management side of their business.

At RentCover we see hundreds of PI claims that relate to property management, yet only a handful relating to sales. And litigation against agents is an increasing trend, as whenever a landlord's liability to the tenant becomes an issue, the landlord often looks to join the agent to the litigation, seeking either full indemnity or contribution to the compensation payable to the tenant.

It often simply boils down to the question of 'who is to blame?'.

Sometimes PI claims are clearly the result of poor property management practices, while other claims are the result of the agent having done their job, but not well enough and tenants end up injured as a result. For example, the agent may have failed to note exactly what's gone on or not emphasised the extent of the risk to a landlord.

Although liability often rests with the owner of the property, the agent can also be held partially or fully liable for failing to act, as these examples highlight.

Claim 1:
The balcony on an investment property was riddled with white-ants and was not safe. The tenant advised the agent on numerous occasions that they were concerned about the safety of the balcony and the agent repeatedly advised the landlord. The landlord asked for quotes to repair/replace the balcony railing and there was a lot (over several months) of back and forth between the agent and owner.

The tenant was so concerned about his safety that he decided to vacate the property. Unfortunately in the process of moving out, the tenant knocked into the balcony and because it was falling apart he then tripped over a loose railing, fell and injured his leg.

Although the agent did the right thing in notifying the landlord and spent many hours communicating with tradies, obtaining and exchanging quotes, calling and writing to the landlord – they failed to stress the seriousness and urgency of the matter strongly enough and, as a result, they shared in the blame for the tenant's injury.

Claim 2:
When entering the landlord's premises the tenant tripped over a high uneven step at the front of the premises, fell and broke an ankle. The tenant issued proceedings against the landlord alleging landlord's negligence (failure to take care and ensure that the tenant is not injured by reason of the state of the premises).

The landlord then issued a third party notice against the agent alleging that they relied on the agent's expertise in regard to property management to identify hazards and notify the landlord of any defects that may require repair. The landlord alleged that the agent failed to identify the defect, notify the landlord and repair it. As the agent could not provide proof of regular inspections being carried out on the premises, they were held responsible for the injury. The amount claimed was in the vicinity of $200,000 (medical expenses, loss of earnings, gratuitous care) in addition to both the tenant's and the landlord's costs, which were covered by the agent's PI insurance.

These claim examples are an important reminder to all agents about their legal responsibility when it comes to duty of care, particularly in respect to urgent/emergency repairs and general maintenance and safety. They also serve to remind agents that poor management practices can have serious impacts on the business and lead to litigation – a costly exercise even if the agent is found to have acted professionally and been absolved of liability. So it really does pay to make sure you protect your business with the right Professional Indemnity insurance, one tailored specifically to the real estate industry and covering property management activities.

A little ray of sunshine

Despite the world being dominated by digital, with artificial intelligence on the rise, and an app for practically everything – our property buying decisions are still influenced by the weather!

The sheer volume of information at a property buyer's fingertips is overwhelming – there are property market reports from every conceivable source, news reports, blogs and chat rooms, advice from experts and those who just think they are, apps to use and virtual reality tours to take… the list is endless. And yet, when it comes time to make a purchase, if it's a sunny day they are likely to pay more.

Researchers at the University of Technology Sydney have found that there is a link between the weather and how much buyers are willing to pay.

By comparing the sale price of more than 800,000 Sydney properties between 2000 and 2014 and comparing the sales with the corresponding weather data from the Bureau of Meteorology, the study found that sunny days can boost auction prices.

"Weather is known to affect mood, and some studies have shown a link between the weather and stock prices, so we decided to look at weather and house prices", said Dr Adrian Lee, Senior Lecturer in Finance at UTS Business School.

Auction prices were compared with factors including temperature, rainfall and solar exposure, as well as consumer sentiment survey data. It was found that whether it was sunny or cloudy was the dominant factor, rather than the temperature or rain.

A sunny day increased the auction sale price by 0.974 per cent, or nearly $11,500 based on the median Sydney house price of $1.178 million.

Higher auction prices were also achieved on warmer days, with the study revealing that a day with a 10 degree higher maximum temperature resulted in a 0.635 per cent (or around $7,400) increase.

On the other hand, if it was rainy, the auction prices were dampened, realising 0.174 per cent (or about $2,050) less than on a clear day.

The take out for landlords and PMs? While the study focussed on home sales (auction prices), the psychology behind the correlation between weather and pricing could be translated into the rental market. Plan to list homes and hold open for inspections on sunny days and you may see tenants willing to pay more rent.

Staff profile: Gareth Greaves

Gareth's the go-to guy for real estate pros

Although Gareth Greaves works with clients from many different industries, he has a special spot in his heart for the real estate industry – having worked on the frontline in the property world before making the switch to insurance broking.

"I worked in the real estate industry in the UK and Australia for around three years and have been working as an insurance broker for around 12 years," explained EBM's Commercial Division Manager – Melbourne/Sydney.

"I started my career in insurance within the general broking space in the UK and when I returned to Australia I commenced with EBM in the RentCover team before progressing to the commercial broking division. My experience working within the industry has certainly given me insight into the needs and motivations of my real estate clients."

With a combination of first-hand experience in the property industry and extensive experience in working with real estate professionals, Gareth is a dab hand at helping his clients identify the risks unique to the industry and mitigate those risks with the right insurances.

"It's important to not only have a clear understanding of the exposures relating to a specific industry but also to have a clear understanding of how each business operates and how that impacts on their insurance needs," he said.

"Spending time with each client to truly understand what's important to them helps to tailor their insurance program to meet their expectations.

"We partner with our clients to ensure they are educated on the need for insurance and the exposures they face on a daily basis. From that educated standpoint they are well placed and confident when purchasing commercial insurance products for their business."

Gareth explained that most agents are aware of the insurances they need to meet their licensing and contractual obligations, such as Professional Indemnity and Public Liability, along with covers to help protect their business interests such as office-based property risks. But there are also other exposures some don't consider, along with emerging risks.

"There has been a significant increase of late in claims relating to Management Liability and Cyber Liability (data breaches and ransomware attacks). We strongly suggest our clients consider both management and cyber liability products within their insurance program and we always include these covers in our personalised risk analysis," Gareth said.

Citing the fast-pace and constantly evolving nature of commercial insurance broking as aspects of his job he finds most exciting, Gareth also noted that it's these factors that also pose some challenges.

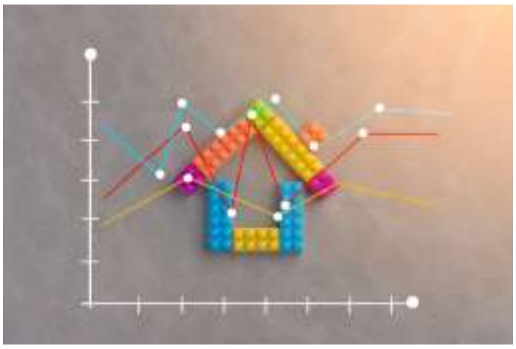
"The constant evolution of the industry means brokers need to stay across all changes to legislative requirements along with new products and service offerings entering the market to ensure the client is receiving the most comprehensive insurance solution."

But staying up-to-date is something that Gareth and his colleagues are focussed on – and it's something that has earned EBM and RentCover a lot of respect among the real estate industry.

“We are well known as trusted risk advisors. We have been heavily involved in the real estate industry for over two decades and as a result have a detailed knowledge of the industry, the specific needs of our agents and the service expectations of landlords,” Gareth concluded.

Despite loving the fast-pace of the work, when it’s time to relax Gareth enjoys good food and wine, spending time with his family and travelling.

Investment Property Market Snapshot



Latest industry statistics and analysis.

Asking rents up
Data released by SQM Research showed capital city asking rents in December were up 0.4 per cent to $550 per week for houses, while unit asking rents fell 0.5 per cent to $437 per week: Canberra ($606 p/w houses / $433 p/w units), Sydney ($728 / $519), Darwin ($535 / $410), Brisbane ($443 / $366), Adelaide ($379 / $290), Hobart ($382 / $322), Melbourne ($515 / $395) and Perth ($420 / $321).

Rental yields remain at low levels
CoreLogic's November Hedonic Home Value Index revealed national gross rental yields remained at low levels – 3.46 per cent for houses and 4.09 per cent for units. The highest yield was Darwin at 5.8 per cent and the lowest Melbourne at 2.9 per cent: Canberra (4.4 per cent houses/5.3 per cent units), Darwin (5.7 / 5.9), Hobart (5.0 / 5.0), Perth (3.8 / 4.3), Adelaide (4.1 / 5.0), Brisbane (4.1 / 5.2), Melbourne (2.6 / 3.9) and Sydney (2.9 / 3.6).

Vacancy rates rise
SQM Research data revealed the national vacancy rate rose slightly in November to 2.2 per cent. Hobart's vacancy rate remained the lowest at 0.3 per cent, while Adelaide (1.4 per cent) and Brisbane's (3.4 per cent) rates remained unchanged. Sydney recorded the largest rise, up from 1.8 per cent to 2.1 per cent. Increases were also recorded in Melbourne (1.8 per cent), Canberra (1.0 per cent) and Perth (4.5 per cent).

Interest-only loans decline
Data from APRA's *September Quarterly ADI Property Exposures* indicated that interest-only loans had declined to an historic low of 16.91 per cent (down 44.84 per cent over the quarter). The percentage of interest-only loans for the quarter was 35.35. In June 2015, 45.65 per cent of all new loans approved by banks were interest-only, that figure is now 16.69 per cent (down 48.65 per cent over the quarter).

Investors still favour established homes
According to research from Mortgage Choice, the majority of investors are choosing to purchase established homes over off-the-plan properties. The 2017 survey found 76.9 per cent of investors purchased an existing dwelling, compared to 23.1 per cent who bought a new build.

Foreign investors targeted in SA
In late 2017, the SA Government announced that a 7 per cent foreign investor surcharge (in addition to stamp duty) would be implemented from 1 January 2018. This figure was higher than the 4 per cent surcharge proposed in the July state budget. The surcharge will apply to all contracts executed by foreign investors after 1 January and also apply to investors who have already signed contracts but not finalised the sale.

News in brief

REISA introduces pet agreement

Following discussions with the RSPCA and Shelter SA, REISA has introduced a standard pet agreement. Available from the REI Forms Live platform, the pet agreement reflects the obligations of a tenant towards keeping a pet in their rental property and is designed to help alleviate the reluctance of landlords to allow pets into their properties. Good to know: RentCover policyholders are covered for up to $65,000 in pet damage.

Influence of past performance

A survey of property investors by ME Bank has found 56 per cent put their confidence in investing in the asset class down to "Australian house prices have always gone up in the past" (UBS analysts note a 6,556 per cent growth in house prices over 55 years), 11 per cent said "so many other people are buying investment properties it must be safe" and 34 per cent put their confidence down to "advice or analysis".

Mortgage holders fail to ask for better rate

A survey by finder.com.au revealed 45 per cent of property owners do not request a lower interest rate when applying for a loan. Of those surveyed, 9 per cent didn't know they could ask for a discount and 36 per cent didn't bother to ask, even though 75 per cent of those who did ask received one.

Borrowers unprepared for reversal of fortune

The Canstar *Consumer Pulse Report* found one in seven homeowners would be unable to meet mortgage repayments if their financial situation changed. It also found 43 per cent of borrowers had less than three months' worth of repayments saved, while 15 per cent had no buffer at all. Of the respondents with a buffer, 39 per cent had dipped into it in the past 12 months. A survey by UBS revealed about one-third of Australians were not completely truthful in their home loan application over the past 12 months.

WA joins NSW & Vic in paperless refinancing

Following similar moves to paperless transactions in NSW and Victoria, on 1 December 2017, refinancing transactions in WA moved online. By using the Property Exchange Australia's (PEXA's) digital platform, it is expected that transaction times may halve (to 20 days from 40 days on average). From 1 May 2018, property transfers in WA also move online.

Tech watch: the latest apps and offerings

PEXA has developed the SettleMe app. The settlement tracking app allows buyers and sellers to track the final stages as property exchanges hands.

New to the US market, nesterly is a digital platform that matches medium-term renters (like students) with established (usually elderly owner) households. Instead of paying cash for rent, the tenant pays some of their accommodation fees by undertaking tasks around the home.

Currently being beta trialled in the US, Agent Neo is an app that connects consumers with agents using Amazon Echo. The voice-activated app can help consumers buy a house, request an open, help sell a home or find the value of a property.

Bitcoin used for Aussie sales

Following the growing trend in the UK and Europe, a Melbourne property owner has become the first in Australia to agree to accept the crypto-currency Bitcoin for part payment on a home.

Airbnb star on the wane
A report by US investment bank Morgan Stanley has raised doubts about the future growth of Airbnb. While the bank's survey found awareness of the platform had grown 8 per cent in 2017 (to 80 per cent), the 'adoption curve' of the home rental system has flattened in the US and Europe. A significant rise in the number of negative ratings and growing concerns over privacy and safety issues were also impacting the popularity of Airbnb.

Legal corner: referrer banned
Following an investigation, ASIC has permanently banned a Victorian insurance referrer from providing financial services. The Director (Tracey Burnell) of Landlord Protection & Collection Pty Ltd and the company itself were not authorised to arrange contracts of insurance and were only ever permitted to refer clients to insurance brokers for the purpose of obtaining landlord protection insurance.

Westfield sold to French property giant
The Lowry family has sold the Westfield shopping centre empire to Unibail-Rodamco for $32.7 billion. Westfield Corporation runs 45 shopping centres and airport retail precincts in the US, UK and Italy. The Lowry family will retain control of Westfield's retail technology platform OneMarket and a significant holding in the merged operation.