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The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

As autumn settles in, many landlords and PMs will be ensuring that their investment properties are prepared for the winter weather ahead. Although some people will be seduced by the idea of DIY property maintenance and repairs, thanks to the proliferation of home shows on TV, in this edition we explain why DIY at rentals is not such a great idea (well not if you're fond of your extremities – and keen to keep your insurance cover!).

We also take a look at the issue of termites. While many think that white ant activity only happens in the warmer months, the fact is the destructive pests munch away year-long, so it's best to remain vigilant.

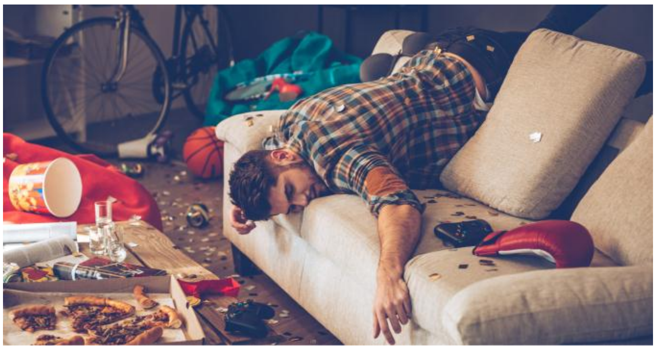
Following on from a survey that found that 17 per cent of all holiday home guests had accidentally broken something or damaged their accommodation, the value in having the right kind of landlord insurance is paramount. Some of the claims we've seen highlight why.

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

Lest we forget: Please join me and everyone at RentCover in commemorating ANZAC Day. If not for those who sacrificed so much and fought to preserve our freedoms and values, we may not be able to enjoy the 'great Australian dream' of homeownership and use property investment to provide housing and financial security.

Sharon Fox-Slater
Managing Director, RentCover

Holiday, celebrate?



A recent survey found damage to holiday homes by guests was commonplace, so having the right landlord insurance is a necessity.

When a general insurer surveyed 1,000 holiday home tenants, some concerning statistics came to light – and put a spotlight on the need for the right insurance.

It was found:

- one in six tenants (17 per cent) had accidently broken something or damaged their accommodation
- one in seven (14 per cent) had been injured at the property
- one in five (19 per cent) had hosted or been to a party at a holiday rental
- young men aged 18 to 34 were more likely to damage a property (24 per cent, compared to 17 per cent of women), injure themselves or host a party (35 per cent, compared to 19 per cent of women)

The findings show that the unexpected does happen from time to time – and that it's important to have the right insurance in place when it does.

Too often owners do not realise that their normal home and contents insurance, landlord insurance or the insurance offered by some platforms may not cover them for damage or liability caused by a paying guest.

Any owner renting out their property short-term – as a standard holiday let or through a share accommodation platform like Airbnb or Stayz – should take out a landlord insurance policy designed for the short-term market.

In addition to providing cover for damage to the building (if applicable), RentCover*ShortTerm* offers comprehensive contents cover for items including game consoles, entertainment equipment, linen, crockery and cookware. It also covers damage caused by tenants, their pets or guests, whether the damage is accidental or malicious (accidental, deliberate/intentional or malicious damage is excluded in many other policies, as is pet damage). Unlike a number of policies on the market, RentCover*ShortTerm* does not exclude damage claims resulting from the tenants having a party (subject to normal policy exclusions). Importantly, it also provides up to $20 million in liability costs in case a tenant/guest is injured on the property. RentCover*ShortTerm* is available for corporate leases, holiday home lets and Airbnb/other share accommodation platform rentals.

For these landlords, having the right short-term accommodation insurance policy in place saved them thousands.

Claim 1: stoners wreak havoc

A guest was staying at the property for two nights. On the day of departure, the PM arrived and found three people smoking marijuana and meth. The police were called to the property and escorted the drug-affected people from the premises. When a full inspection was carried out, there was extensive damage to the property with broken windows, burn marks on carpets and surfaces, beds broken, and linen and other contents missing or heavily stained. The $8,500 damage claim was paid.

Claim 2: washing in high heels proves perilous
A guest went to hang out washing on the line. The path to the washing line was old railway sleepers embedded in the ground and one of these was apparently uneven. The guest was wearing high heels at the time and lost their balance and ended up breaking an ankle. The $15,000 claim for the guest's medical costs and lost earnings was paid.

Damage and liability are key considerations for short-term landlords and their agents, but loss of rent should also be factored in. It is likely that only a landlord policy specifically designed for short-term leasing will cover the cost of lost rent.

Claim 3: break-in causes guest to vacate and take the rental income with them
A property was being rented through Airbnb when an attempted break-in resulted in a broken window. Due to safety and security concerns, the guest and owner were advised by Airbnb that the guest would have to vacate. The $250 damage bill was paid in addition to $700 in lost income due to the cancelled booking.

Claim 4: burst water system bursts owner's short-term rental plans
The hot water converter in a unit above the policyholder's burst, damaging the building. While the owner did not have building cover with us, they did have cover for contents and loss of rent. The $3,500 claim for loss of rent, due to the property being unlettable during repairs and some bookings having to be cancelled, was paid.

These claims illustrate the value in having the right short-term insurance policy in place – one that covers the property, its contents, the owners' liability, any loss of rent and how the property will be let (that is, through a standard holiday let arrangement, via a platform like Airbnb or a mix). Without cover in place, a holiday rental could go from being a 'nice little earner' to a financial nightmare.

Oops there goes another investment property

Causing more damage to Australian homes than fires, floods, storms and tempest combined, termites are property enemy number one. And the damage they cause is not covered by property insurance.

They may only be the size of half a match head but they have a voracious appetite that would put a *Masterchef* judge to shame and can devour a home in just three months…

Termites…White Ants…

Whatever you choose to call them – and regardless of which species are prevalent in your state/region – if they take up residence in an investment property you have a big problem.

According to the CSIRO, there are over 350 species of termites in Australia, of which 20 can damage timber in houses. Damp-wood, dry-wood or subterranean – Aussie termites are highly destructive to both homes and bank accounts.

The Australian Institute of Architects estimates that each year more than 130,000 Australian homes are damaged by termites, with an average repair bill topping $10,000 – that equates to almost $1.5 billion annually. The losses reported from termite damage are five times more than the losses seen from fire, flood and storms combined.

Termites never sleep and will chomp away at any cellulose (wood), including wall and roofing timbers, in a home 24/7. They eat through the centre of susceptible timbers, leaving nothing but a thin veneer of timber and/or paint behind – which also means that they often live in stealth and it isn't until a thorough inspection is carried out that their presence is uncovered.

Another way an owner tends to find out they have a termite problem, is when the damage becomes obvious and for landlords it is sometimes when the resultant damage has led to a tenant injury.

It is important for both landlords and agents to be aware that property damage caused by termites is not covered in building policies. It is an across-the-board exclusion and means that an owner will be left footing repair costs.

With this in mind, being alert to the damage that can be caused by termites is wise. And as they say, an ounce of prevention…

- Organise a thorough pest inspection prior to purchasing the investment property
- Check what anti-termite protections are in place at the property and how frequently they must be renewed
- Ensure annual pest inspections are carried out by qualified and licensed contractors
- Look for tell-tale signs of termites during rent inspections:
    - trails of what looks like sawdust down walls or on floors (it may be termite droppings)
    - presence of flying termites (swarmers or alates) around light fittings, windows and doors, or finding broken wings

    - a clicking sound coming from inside the walls (it’s the solider termites banging their heads to alert the colony of danger) or a faint tapping or chewing noise behind plaster walls (that’s the worker termites munching away)
    - mud shelter tubes (or galleries) in brick foundations, door joins or in architraves, or mud trails leading up the sides of the buildings
    - hollow-sounding or papery timber, or cracks and fissures on the wood
    - damp areas or moisture stains on walls
    - sagging floors or doors, or soft floorboards
    - easily damaged skirting boards, door jams or architraves – blistering may be present
    - tight fitting doors or hard-to-open windows
    - cracks in cornices or door jams
    - cracked paint or plaster
- If tenants raise concerns that there might be termite damage, act immediately to investigate, treat infestations and repair damage
- Make the property less attractive to termites:
    - fix moisture problems like poor drainage, leaking pipes or inadequate ventilation (termites need moisture)
    - remove any wood that is in contact with the ground and close to the house
    - remove any wood, tiles, bricks etc. stacked up against the external walls of the house that may allow concealed entry
    - keep areas under the house clear
    - check the surrounds to ensure shrubs and garden beds are well clear of the building edge and not covering weep holes (the small gaps between bricks that let water drain out)

The fact is, termites have been around for more than 250 million years and for every human on earth there is estimated to be 1,000 pounds of termites – and each colony of termites can eat 1,000 pounds of wood a year – which means they aren’t going anywhere anytime soon. So be alert when it comes to termites – they can decimate an investment property before you know it.

To DIY or not to DIY, that is the question

Aside from the possibility of inflicting injury, DIY poses some significant insurance risks, making the practice best avoided at rentals.

How hard can it be… The landlord has all the kit and they've seen that guy on *Better Homes & Gardens* take on everything from fixing a leaky tap to building a granny flat out the back without any problems. Heck, the tenant is a proven dab hand with an Allen key too, and it's only a slight progression to power tools right? And the agent has so much inspection experience they could identify an issue, like structural problems, electrical faults, plumbing time-bombs and even the presence of asbestos, in their sleep. So, what could possibly go wrong?

Plenty.

Emergency departments across the nation fill with hapless or plain unlucky DIYers every weekend. In fact, figures from the National Injury Surveillance Unit reveal around 25,000 people each year seek treatment related to ladder falls, nail gun injuries and accidents with lawnmowers and power tools. And, annually, more than 3,000 Australians (or a rate of 13 people per 100,000) are hospitalised as a result of injury from a DIY job, according to data from the Australian Institute of Health and Welfare.

The leading causes of injury:

- 38 per cent ladder-related falls
  - 63 per cent of which resulted in fractures
  - 8 per cent an open wound
  - 7 per cent concussion
- 27 per cent powered hand tools and household machinery
  - 11 per cent of powered saw injuries were partial or complete amputation of a finger
  - 22 per cent of powered drill injuries were open wound of finger
  - 17 per cent of powered nail gun injuries resulted in an open palm wound and a further 17 per cent an open wound of the finger(s)
- 13 per cent falls from buildings or structures
- 8 per cent lawnmowers
- 7 per cent non-powered hand tools

And for the record, 81 per cent of those wounded are men and the 65-74 age group accounts for the most hospitalisations.

Then of course, there are the insurance issues.

It's important to know that if a tenant causes damage or, worse still, is injured while undertaking work or repairs at the rental, the landlord's insurance may not cover their liability. Damage or injury caused or suffered by landlords undertaking works also may not be covered.

Any repairs at the investment property should be carried out by experienced, insured and (where applicable) licensed tradies *(see the break-out)*. Just because a trip to Bunnings can yield everything needed to undertake pretty much any task – and a quick Google can provide a step-by-step video tutorial – it doesn't mean an amateur should give it a red hot go. Well, not if maintaining insurance cover is a desirable outcome.

The law requires some works to be undertaken by licensed contractors, such as electrical and plumbing jobs. If they aren't, it can not only result in hefty fines, but also have serious ramifications for insurance and potentially void the policy. To say it would be a false economy to DIY or hire a 'cowboy' handyman to fix an electrical problem, only to have the property burn down as a result of the fault, is an understatement. It makes the few hundred dollars a licensed sparkie would have charged pale into insignificance when compared to the repair cost an owner faces when their insurance claim is declined as a result of the non-licensed work.

PMs could also find themselves in hot water if they knowingly allow works to be undertaken by tenants, landlords or unlicensed contractors that result in damage or injury (making Professional Indemnity insurance a good idea).

When it comes to rental properties, DIY is a risky proposition. So, if for no other reason, suggesting landlords or tenants "step away from the power tools" and calling in the professionals can safeguard the landlord's (and your) insurance cover. If DIY fever looks like it might strike, remind owners that most repairs and maintenance work undertaken by tradies are also tax deductible.

Cowboys don't just roam the open plains

A recent case before the Adelaide Magistrate's Court highlights why landlords and PMs should only engage the services of fully licensed tradies.

Unlicensed builder Paul Arneric was fined over $15,000 for delivering poor work at investment properties. He admitted to breaching the Australian Consumer Law and the Building Work Contractors Act for both not doing work when paid and performing substandard work. As a result, the builder was fined a total of $15,569 – $10,600 fine plus $800 in prosecution fees and $4,169 in compensation to the victims.

Sadly, this was not an isolated case and there are many homeowners and investors who have been taken for a ride by 'cowboy' tradies. So making sure that any tradie that is hired to undertake work at an investment property is qualified, insured and, where applicable licensed, is a must.

Staff profile: Lyndall Mitchell

Recruiting coup for EBM team

Lyndall can't wait to start kicking goals for EBM clients

Lyndall Mitchell knows what it takes to be part of a successful team.

She moved to Perth approximately 16 months ago when her husband, Hawthorn champion and Brownlow medallist Sam, was recruited to play with the West Coast Eagles. He is now a member of the AFL club's senior coaching staff.

Lyndall has been drafted by EBM for the position of National Relationship Manager – Broking, which will be Perth-based but see her spending time back in Melbourne.

She joined the insurance industry 17 years ago and held positions with BMW Financial Services and Marsh before establishing her own broking business in Melbourne, in 2012.

Lyndall was the Ambassador and Key Note Speaker for Hawthorn Football Club's elite Confreres coterie support group, between 2009 and 2016, plus undertook event planning and helped to manage member sales and recruitment.

She also continued to build her broking business and ran a busy household with three young children – Smith, now aged seven, and six-year-old twin girls Emmerson and Scarlett.

"To some people, insurance can be a pretty dull product when you look at it in isolation but I love the relationships, the networking and the socialising with clients – the people is what it is all about for me," said Lyndall.

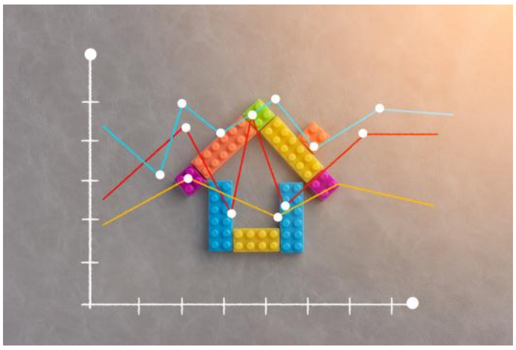
"I like talking to people. I was renowned for not watching my husband play but always being off chatting to somebody during the games!

"With insurance, when I like the product and think it is a good product which is helpful for people, I am always keen to talk to our clients about how we can support them further."

Part of Lyndall's key responsibilities in her now role will be to promote and enhance greater national alignment across EBM and with our key account relationships, partnerships and associations.

Lyndall will also be working closely with Executive General Manager Ryan Cameron who, ironically, has recently joined EBM's Melbourne office from Perth for a year-long secondment on the east coast.

Investment Property Market Snapshot



Latest industry statistics and analysis.

Rental yields improving

According to CoreLogic's *Hedonic Home Value Index* for February, gross rental yields were starting to repair with the national yield at 3.5 per cent for houses and 4.2 per cent for units: Canberra (4.2 per cent houses / 5.5 per cent units), Darwin (5.7 / 6.3), Hobart (5.0 / 5.1), Perth (3.8 / 4.3), Adelaide (4.2 / 5.0), Brisbane (4.2 / 5.4), Melbourne (2.6 / 3.9) and Sydney (2.9 / 3.7).

Asking rents rise

Capital city average asking rents rose 0.2 per cent for both houses and units over March, according to SQM Research. The average asking price for houses rose to $563 p/w and to $444 p/w for units. Hobart continued to record the highest rises in asking prices, up 3.1 per cent to $471.60 p/w for houses and up 2.6 per cent to $368 p/w for units – taking the change over the previous twelve months to +18.6 per cent for houses and +21.7 per cent for units.

Investor loans lift

Figures from the ABS show the value of both owner-occupier (+0.5 per cent) and investor (+1.1 per cent) mortgages increased over January. Despite the rise, the value of investor finance was down 12.1 per cent year-on-year. Data from APRA also showed that interest-only mortgages only accounted for 15.2 per cent (or $15.272 billion) of the $100.3 billion in mortgages written over the December quarter, which was a historic low.

Vacancy rates drop

The national vacancy rate fell to 2.2 per cent in February, down from 2.3 per cent in January, according to SQM Research. Rates fell in Melbourne (1.4 per cent from 1.8 per cent), Canberra (0.8 / 0.9), Brisbane (3.4 / 3.6), Adelaide (1.4 / 1.5) and Perth (4.1 / 4.4). Sydney was steady at 2.3 per cent, while both Hobart (0.5 / 0.4) and Darwin (3.3 / 3.1) recorded rises in vacancies.

Housing prices continue decline

National housing values fell for the fifth straight month in February, according to CoreLogic. Nationally values were down 0.1 per cent over the month to a median value of $552,316. Only Hobart recorded a rise in value (+0.7 per cent), while Adelaide held steady. All other capitals recorded falls: Darwin (-0.9 per cent), Sydney (-0.6), Canberra (-0.3), Perth (-0.2), and Melbourne and Brisbane (both -0.1).

Property price growth slows

Data from the ABS for the December 2017 quarter showed residential property prices rose 5 per cent through the year to December, with growth easing from the September (+8.3 per cent) and June (+10.2 per cent) quarters. The total value of Australia's 10 million residential dwellings increased $92.9 billion to $6.9 trillion.

Brisbane tops list of capitals for investment

Brisbane has been named the capital city with the best investment prospects in 2018, garnering 46.1 per cent (up from 44 per cent in 2017) of votes in the Property Investment Professionals of Australia's 2018 Member Survey. Melbourne was the second pick with 19.23 per cent (down from 29 per cent) and Perth came in third with 15.38 per cent (up from 3.7 per cent) of respondents saying it offered the best property investment prospects for 2018. Just 3.85 per cent (down from 11 per cent) cited Sydney as offering solid investment prospects.

Affordability dips
According to the Adelaide Bank/REIA *Housing Affordability Report*, affordability declined nationwide in the December quarter. The proportion of household income needed to meet loan requirements rose from 30.3 per cent in the September quarter to 31.6 per cent Australia-wide (rises were recorded in each state and territory). The average loan nationwide rose to $399,055, up 4.6 per cent for the quarter. Despite the rise in unaffordability, the number of loans was up 1.5 per cent (only WA and NSW did not record rises).

Investors sell at a loss
According to CoreLogic's *Pain & Gain Report* for the December 2017 quarter, 11.3 per cent of investor-held properties were sold at a loss (compared to 7.5 per cent of owner-occupier properties). In the capital cities, 9.3 per cent of investor properties sold at a loss (6.7 per cent of owner-occupier), while 15.3 per cent of regional properties resulted in losses (9.8 per cent of owner-occupier).

$1M+ properties on the rise
Data from CoreLogic's *Property Pulse* revealed that in the 12 months to December 2017, 16.1 per cent of all houses and 9.5 per cent of all units sold for more than $1 million. In 2016, 14.8 per cent of houses and 8.1 per cent of units were in the $1M+ club. Across the capital cities, 23.8 per cent of houses and 11.6 per cent of units sold for more than $1M (up from 21.7 per cent and 9.8 per cent respectively the year before). In the regions, the figures were 4.6 per cent of houses (up from 3.8) and 3.8 per cent of units (up from 3.6).

News in brief

HIA urges Government to not target investors

The Housing Industry Association (HIA) has stated that taxing investors more in order to address housing affordability could make the current crisis worse, not better. "Any new taxes or changes to negative gearing will exacerbate the affordability challenge by discouraging investment in new housing, force up the cost of renting and make it harder for first home buyers and renters to get into a home", said HIA principal economist Tim Reardon. Both the HIA and REIA have called for the government to step up to address affordability by reforming the planning and approval process, freeing up land and addressing tax imposts such as stamp duty.

Boost suburb density or cut immigration to address affordability

A report by the Grattan Institute has argued that an effective method to curb housing affordability issues could be to reduce immigration. Together with reforming capital gains tax policy on primary residences, boosting density along transport corridors, and increased land supply, reducing immigration would have a large impact on housing affordability. The Institute noted that the largest impact would be for state and local governments to boost density in middle suburbs.

Sydney second most unaffordable in the world

The *14th Annual Demographia International Housing Affordability Survey* has revealed that Sydney's housing market is severely unaffordable – only beaten in the unaffordability stakes by Hong Kong. Melbourne ranked as the fifth most unaffordable international market worldwide. Adelaide came in 16th, Brisbane 18th and Perth 21st, resulting in Australia being ranked as the second most unaffordable country globally (beaten only by China). Overall, the mot unaffordable Australian markets were determined to be the Sunshine Coast and the Gold Coast, while the most affordable, rated as "moderately affordable", were Gladstone and Rockhampton. No market was determined to be "affordable".

Australia ranks 12th most expensive to live in

Numbeo's *Cost of Living Index by Country* for 2018 has ranked Australia as the 12th most expensive, with the cost of living plus rent index at 63.83 (the cost of living index was 84.3 and the rent index was 41.85). Bermuda was ranked the most expensive with a cost of living plus rent index of 123.57, while Pakistan was the least expensive at 15.54.

Millions head to auctions without pre-approved finance

A survey commission by realestate.com.au Home Loans, found 18 per cent of the adult population failed to get finance pre-approval before they attended an auction for a home they were interested in buying. The poll found Millennials were more likely to take the risk than Baby Boomers.

Tech watch: latest apps

Digital platform FLIK IT OVER allows tenants to sign leases via their smartphones. The agent sends the tenant a link to their tenancy agreement via SMS and the platform then takes the tenant step-by-step through the details and conditions of the lease, requiring tenant approval at each step. Sales and PM agreements giving consent to a RE agent to sell or manage property can also be signed on the platform.

Flammable cladding puts Queensland unit owners at risk

Strata experts are warning that as hundreds of thousands of Queenslanders continue to live in buildings covered in flammable aluminium cladding, unit owners could be in for skyrocketing insurance costs. There have been instances were failure to provide information that the building is risk-free has resulted in premium increases of up to 300 per cent.

VCAT to improve digital services
VCAT for the future: Strategic Plan 2018-22 is focussed on enhancing the agency's digital services with plans to embrace digital technologies and innovation so more people can use its online services. VCAT is also exploring online dispute resolution as a convenient and low-cost option.

Legal corner: Agency enters into enforceable undertakings & agent jailed
Purplebricks has entered into two enforceable undertakings with the Queensland Office of Fair Trading for alleged breaches of the Australian Consumer Law and the *Property Occupations Act 2014*. Between November 2016 and November 2017, the real estate agency entered into agreements with consumers who were not made aware of the terms of the fees charged, and consumers were also misled about additional services offered. During the same period, Purplebricks also failed to fulfil some of its regulatory obligations. The enforceable undertakings require the agency to pay a $20,000 penalty and ensure all representations made by the company are not false or misleading.

Former Melbourne RE agent Tri Duc Ngo (aka Joseph Ngo) has been jailed for five years for misappropriating millions of dollars of his client's money. The agent was also ordered to pay $2.1 million in compensation to cover costs paid out to victims.