EBM | RentCover 1800 661 662 | WWW.RENTCOVER.COM.AU

The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

The weather has certainly been getting chilly, but concerns about meth contamination are at a fever pitch. In the last few months the chatter about meth has been growing, fuelled by the behaviour of some clean-up operators. In this edition, we bust a few myths about meth contamination – and let you know where we stand as an insurer.

With the exception of South Australia, all states and territories have announced their proposed budgets for 2018-19 and we take a look at the decisions that may impact the property sector. Mirroring the Federal Budget, most jurisdictions have pretty much bypassed property investors, with only a few proposing tweaks to existing measures such as land tax rates, first homebuyer incentives, imposts on foreign investors etc.

From budget papers to tax-time paperwork. Chances are you have your insurance policies out and ready to hand over to the accountants (remember to claim the premium on landlord insurances as a tax deduction) – making this an opportune time to check those policies are still meeting your needs. If not, please get in touch.

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

Sharon Fox-Slater
Managing Director, RentCover

Myth Busters: Meth contamination

Australia may be in the grip of an 'ice' epidemic, but is the hysteria about meth contamination in rentals justified?

Few would argue there is an illicit drug problem across our nation. Meth use has tripled in the past five years, according to the National Drug and Alcohol Research Centre. Police are regularly called out to violent outbursts from meth-affected users and burglaries to 'feed' the habit are rampant, while hospital EDs are the scenes of the drug-fuelled aftermath. But it's not only on the streets that concern about 'ice' and meth ('P') is growing – it's an issue that landlords and property managers are also having to face.

Recently there has been a lot of panicked chatter about meth contamination in rentals, but what are the facts behind the fear?

Claim: Any use (including smoking) of meth in a rental means the property is 'contaminated'.
Myth: The fear that even trace levels of meth residue pose a risk is being allayed by research.

Across the Tasman, where the scourge of meth is at epidemic levels, a report by New Zealand's Chief Science Adviser, Professor Sir Peter Gluckman, has shed light on the risks.

Professor Gluckman said the risk of encountering methamphetamine on home surfaces at levels that might cause harm is "extremely low" and found no evidence that residue from home meth smoking would harm future residents.

"There's absolutely no evidence in the medical literature anywhere in the world, of anybody being harmed by passive exposure to methamphetamine at any level," said Sir Peter.

The Gluckman report states: "There are no published, or robust unpublished, data relating to health risks of residing in a dwelling formerly used only for smoking methamphetamine.".

The report also notes that exposures below 15 micrograms are highly unlikely to cause adverse effects. Levels of more than 30 micrograms are indicative of manufacturing activity.

"There is, theoretically a [health] risk if you got up to levels of 100mg or thereabouts, but that's theoretical. You probably would need levels much higher, in the order of 1000-10,000mg to have a risk," Sir Peter told media when the report was released in May.

In four years, state housing authority Housing New Zealand spent over $100 million testing and decontaminating houses suspected of being meth contaminated. Many houses were demolished and several hundred homes were left vacant. However, research showed that of the 1,600 homes HNZ suspected were contaminated, only one per cent contained traces of 30 micrograms or more.

Testing is not warranted in most situations and remediation to the current standard [1.5 micrograms per 100 cm^2] is appropriate only in former meth labs and properties where "excessive methamphetamine use" is indicated, Gluckman noted.

The takeout is that unless the tenants or their guests are extremely heavy users of meth, the residue from smoking 'ice' is unlikely to be at a level that could potentially cause harm after they've gone.

Claim: Meth drug labs (clan labs) are the main source of contamination.
Truth: Manufacturing of meth poses a far greater threat to the safety of the home and the health of its occupants.

The process of 'cooking' ice and other meth-based drugs involves the use of dangerous chemicals including lithium metal, liquid ammonia, LPG, acetone, hydrochloric acid and caustic soda. This highly volatile combination of explosive and corrosive materials are key ingredients in the recipe – and can leave behind a highly toxic residue.

If a property is found to have been used as a meth lab, it will require specialist (forensic) cleaning.

Claim: Meth residue in a home can be a health hazard.
Truth: High levels of meth residue can pose health risks.

Chemical residue, left over from the manufacturing process, can seep into soft furnishings, carpets, timber floors and door frames, and even walls and ceilings. While you often can't see the toxins, you may be made painfully aware of their presence – stinging eyes, nose and throat irritation, respiratory problems, rashes, nausea, vomiting, dizziness, confusion, fatigue, blurry vision and headache are common reactions. Children, adults and pets living in contaminated dwellings have been known to suffer ill-effects of exposure.

Claim: Rentals should be checked for meth contamination.
Depends: Meth contamination is usually invisible so testing is the only way to confirm or refute its presence. In recent times, there has been a lot of 'scaremongering' around meth contamination and the need for testing. In some cases, the flames have been fanned by testing companies tapping into property investor concerns about the risks. However, whether the home should be tested or not depends on whether there is reason to suspect the property has been used as a clan lab or the occupants were heavy meth smokers. If there is no cause to suspect either scenario, then there is little reason to carry out testing.

If a landlord or agent suspects the property is being used as a meth lab[*], the police should be notified immediately.

If a landlord or agent suspects that heavy crystal meth smoking has taken place at the property, it may be prudent to undertake testing. DIY test kits are available and if the preliminary test shows a positive result, further testing should be carried out by a government-approved service provider to confirm the level and type of contamination present.

---

[*] Signs that a property may be being used to 'cook' meth include (courtesy Auckland Regional Public Health Service):

- unusual chemical smells that are not normally present in the area
- numerous chemical containers (labelled solvent, acid, flammable) stored or stock piled
- stained glass equipment and cookware
- plastic or glass containers fitted with glass or rubber tubing
- numerous cold tablet packages lying around or in the rubbish
- portable gas tanks or other cylinders not normally seen or used in the area
- chemical stains around household kitchen sink, laundry, toilet or stormwater drains
- yellow/brown staining of interior floor, wall, ceiling and appliance surfaces.

Other signs include:

- light bulbs being removed (to avoid the risk of a spark causing an explosion)
- smoke detectors being disabled
- false walls being erected
- curtains always being drawn or windows blacked out.

The Australian Government (in its *Clandestine Drug Laboratory Remediation Guidelines – 2011*) has set the Health Investigation Level at 0.5µm (micrograms) per $100cm^2$ for meth on residential surfaces. Higher levels do not guarantee a risk exists but indicates the need for further investigation or action, notes the Western Australian Department of Health's *Guidelines for Notification and Risk Management after Detection of a Clandestine Drug Laboratory*.

Claim: Landlords and property managers can be held liable for tenant health problems.
Truth: Landlords have a legal obligation to provide a safe rental property. Property managers also have a duty of care to protect the health and safety of tenants.

Any lingering toxins present a liability risk and allowing a contaminated home to be occupied may breach the Residential Tenancies Act in their state/territory or contravene building, environmental and health legislation, leaving landlords and agents exposed to legal action and claims for compensation.

If a lab is identified, the agent may be protected by their Professional Indemnity insurance for any allegations of professional negligence. Agents should check their policy because they often contain a "pollution" exclusion clause.

Landlords also need to check if their Landlord Insurance provides specific coverage for the discovery of a meth lab.

Claim: Insurers won't cover the cost of meth contamination clean-ups.
Myth: Policies vary so insurance coverage for the cost of meth contamination clean-up depends on the individual insurer and the specific policies they offer.

RentCover provides up to $65,000 to cover the cost of cleaning a drug-contaminated property if the damage is caused by tenants during the period of insurance, along with other costs incurred, such as loss of rent while the property is remediated.

Four out of five people are underinsured

An alarming 80 per cent of property owners and tenants are underinsured. Make a new financial year resolution to check your cover is adequate.

As the new financial year begins, and you pull out the paperwork for your tax accountant, it's a convenient time to also review your insurance cover.

Concerningly, data from the Insurance Council of Australia (ICA) shows four out of five Australian property owners and renters are underinsured, despite having policies in place.

While some may underinsure their property on purpose, usually in the belief that "it'll never happen" so they might as well save on premium costs, for many others the shortfall is unintentional.

Insurance cover is not a case of set and forget. Policies need to be regularly reviewed to ensure that the sums insured are enough and that the terms and conditions of the policies still cover your situation.

When reviewing your cover, it pays to keep these points in mind:

Building cover (included in RentCover*Platinum* and RentCover*ShortTerm* if applicable)

- Have you made any renovations, alterations or additions to the home?
  Any home improvements should be factored into the sum insured.
- What is the current replacement building cost?
  This is not market value, but the current cost of building the same premises again. This value needs to reflect the costs involved in restoring the property to its existing condition, taking into account current building standards and codes, and also factoring in rising costs due to inflation, labour etc. To get an accurate estimate of replacement costs, talk to a quantity surveyor or builder (your agent/property manager is not able to provide an accurate costing), contact the bank that holds the mortgage or check an online building replacement calculator.

Contents cover (included in RentCover*Platinum*, RentCover*Ultra*, RentCover*ShortTerm* and *TenantCover*)

- Have you added to your possessions?
  This doesn't only apply to major purchases such as whitegoods or furniture, but also to smaller items such as linens, crockery, soft furnishings, entertainment systems etc. Tenants should include personal possessions such as clothing. It is particularly important for landlords offering short-term accommodation (holiday lets, corporate leasing or share-accommodation through platforms like Airbnb), those that provide fully furnished fixed-term rentals and for tenants to keep track of and update their contents insurance to include new belongings.
- Do any items need to be specified on the schedule?
  Contents policies have set limits for claims (total value insured) and also certain items like jewellery, watches and artworks are only insured to a certain amount (sub-limits). High-value items, or any that exceed the set limits, need to be specified and may require a separate, specialised policy (our colleagues at EBM can arrange cover).

Landlord cover (included in RentCover*Platinum*, RentCover*Ultra* and RentCover*ShortTerm*)

- Has the way you rent out the property changed? For example switched from short-term to fixed-term, or vice versa.
  If the type of lease has changed, it is imperative that the type of insurance policy is changed too – as different policies suit different situations and landlords may find themselves inadequately insured for their needs.
- Has the rent increased?
  If the weekly rent has increased significantly (for example, exceeds $1,500 per week), you will need to contact your account manager.

If disaster strikes, landlords and tenants can both find themselves in financial strife if they have failed to update their insurances. Take the time to review your cover at the start of the new financial year and contact your agent (if they are an authorised RentCover representative), RentCover account manager or TenantCover broker to update your policy schedule.

State of the States

In the last two months, state and territory governments have handed down their budgets for 2018-19. What do property investors need to know?

Hot on the heels of the Federal Budget, state and territory governments have been hives of activity in May and June, with each one (excluding SA) handing down their proposed budgets for 2018-19.

The latest Federal Budget held little by way of deterrent or incentive for property investors, so many waited with baited breath to see how the states/territories would treat the sector. By and large, the sector was bypassed with few governments announcing measures directly affecting property investment. Some industry pundits have called the budgets lost opportunities, while others have breathed a sigh of relief to find the sector 'off the radar'.

If adopted, the following measures may impact property investors and the industry.

Victoria *(handed down 1 May)*

- Property taxes: No changes to stamp duty etc.
- Land taxes: No changes to land taxes.
- Public housing: No provision for increased public housing.
- Young farmers: For property settlements from 1 July 2018, the young farmer stamp duty exemption threshold will be lifted to $600,000 (from $300,000).
- ADF first homebuyers: From 1 July 2018, ADF personnel will no longer need to reside in their home for 12 months to obtain the first homebuyer stamp duty exemption.
- Infrastructure: $13.7 billion investment in infrastructure (2018-19).
- Health: $1.2 billion for building and expanding hospitals.
- Education: $2.8 billion investment in schools.

New South Wales *(handed down 19 June)*

- Property taxes: No changes to stamp duty etc.
- First homebuyers: Transfer duty relief and grants will be made available to first homebuyers. The relief would see first homebuyers saving an average of $14,500, with additional benefits being made available to bring those savings up to $34,361.
- Infrastructure: $15.3 billion investment in infrastructure (2018-19).
- Health: $8 billion investment in health (2018-19).
- Education: $6 billion investment in schools over the next four years.

Australian Capital Territory *(handed down 5 June)*

- Land taxes: There will be a rate rise with an average increase of seven per cent for houses and 10 per cent for units.
- Commercial property: From 1 July 2018, transfer duty will be abolished on commercial property transactions of $1.5 million or less. Commercial property transactions greater than $1.5 million will incur a flat five per cent rate.
- Foreign investors: From 1 July 2018, foreign investors who own residential property in the ACT will be liable for a surcharge of 0.75 per cent of the property's average unimproved value, in addition to the applicable marginal land tax rate.
- First homebuyers: From 1 July 2019, first homebuyers with a household income below $160,000 will not pay stamp duty regardless of the value of the first home (established property or newly built home). However, the First Home Owner Grant will end.
- Housing: $760 million for housing and services over the next four years, plus $775,000 over four years to support innovation in housing choices.
- Affordable housing: Sites for 288 affordable homes to be released, along with sites for 113 public housing and 20 community housing properties.
- Capital works: $126 million new capital works expenditure (2018-19).
- Light rail: $12.5 million to progress Light Rail Stage 2.
- Health: $1.6 billion investment in health.
- Education: $1.2 billion investment in schools.

Queensland *(handed down 12 June)*

- Property taxes: No changes to stamp duty etc.
- Land tax: From 1 July 2018, the rate of land tax is increasing by 0.5 per cent for owners of land who have aggregated landholdings with a taxable value above $10 million.
- Foreign investors: Foreigner acquirer duty to increase to seven per cent from 1 July 2018 (up from three per cent).
- First homebuyers: First Home Owners' Grant will reduce to $15,000 (from $20,000).
- Transport and roads: $4.9 billion investment in transport and roads.
- Infrastructure: $45.8 billion over the next four years.
- Health: $17.3 billion investment in health.
- Education: $14.1 billion towards education and training.

Western Australia *(handed down 10 May)*

- Property taxes: No changes to stamp duty, transfer duty rates etc.
- Foreign investors: From 1 January 2019, foreign investors will pay a seven per cent surcharge on property purchases.
- Affordable housing: $184 million State contribution to a $394 million Social and Affordable Housing and Jobs Package, aligned to METRONET.
- Transport infrastructure: $3.6 billion allocated to METRONET projects in total and $3.2 billion for road infrastructure.
- Health: $655 million of health infrastructure investment over the next four years.
- Education: $22.2 billion investment in education over the next four years.

Tasmania *(handed down 14 June)*

- Land tax: Exemption on paying land tax for three years for all new-build homes for long-term rental and a one year land tax exemption for short-stay accommodation properties that are made available for long-term rental accommodation within the Greater Hobart Area.
- Foreign investors: Foreign Investor Duty Surcharge introduced which will see an additional three per cent of the dutiable value for all purchases by foreign residents and an additional half per cent of the dutiable value for all purchases of primary production land by foreign investors.
- First home builders: Extending the First Home Owner Grant of $20,000 for eligible first homebuyers of newly constructed homes, those who have new homes constructed and owner-builders, from 1 July 2018 to 30 June 2019 inclusive.
- First homebuyers: 50 per cent saving on stamp duty for first homebuyers purchasing established homes worth up to $400,000.
- Downsizing seniors: 50 per cent saving on stamp duty for eligible pensioners that sell their existing home and downsize to a new home or unit at a lower cost.
- Affordable housing: $100 million for the Affordable Housing Strategy II.
- Infrastructure: $1.1 billion investment in roads and bridges infrastructure.
- Health: $475.6 million investment in health.
- Education: $192.2 million investment in schools and education.

Northern Territory *(handed down 1 May)*

- Land tax: No tax introduced.
- Vacant land: From 1 July 2019, a derelict building and vacant property levy will apply to unoccupied commercial land in the Darwin CBD, at a rate of one per cent of unimproved capital value for buildings that are 50 per cent or more vacant and two per cent for undeveloped vacant land.
- Remote housing: $1.1 billion investment in remote housing.
- Public housing: $61 million for new and upgraded urban public housing.
- Infrastructure: $1.45 billion investment in infrastructure.
- Transport infrastructure: $626.4 million investment in roads and transport.
- Capital works: $1.89 billion investment in the capital works program.
- Education: $1.23 billion investment in education and training.
- Health: $1.56 billion investment in health services.

South Australia – due to be handed down 4 September.

Please note: As with the Federal Budget, each state/territory budget is not cast in stone until the proposed measures are passed by parliament.

Staff profile: Molly McKie

Talent spotted

Little did Molly McKie know that when she went to interview with a recruitment company she would leave with some insightful advice – and a new career in insurance!

With a background in retail and education, Molly was looking for a career change and went to a pre-screening interview with a recruitment company for a job in customer service. But the recruiter suggested Molly would be ideal and should look for an opportunity in the insurance industry.

“I’d never worked in insurance before but the recruitment consultant suggested I go for an interview with EBM as she thought it would be something I would be suited to,” recalled the Client Services Consultant in our Melbourne office.

“So really, insurance chose me!”

And it was a good choice. Molly has been with the RentCover team since September last year and is loving her new career.

“I enjoy doing something different every day. There’s never a boring day because there’s always so much to do. I also love the people I work with, everyone at EBM is great,” Molly enthused.

Getting to talk to a wide range of people is another aspect of her role that Molly adores – even though “dealing with so many different clients and personalities can be challenging at times”, Molly relishes the interactions and considers each experience another opportunity to learn and hone her skills.

It is this level of commitment from each team member that helps contribute to RentCover’s excellent reputation.

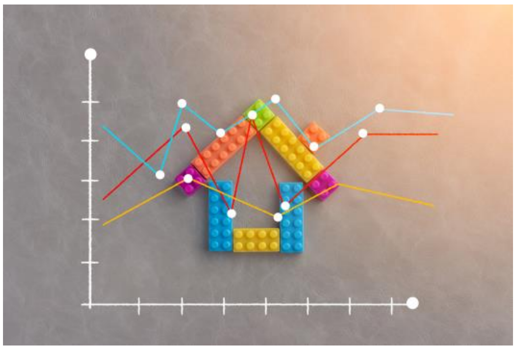
“We have a friendly staff who are willing to assist in any way possible,” she said.

Adding that having a singular focus is also key to the team’s success.

“We specialise in landlord insurance, so we can offer deeper product knowledge and understanding as it is all that we do.”

Away from the office, Molly loves to head out of the city and enjoy a spot of camping and hiking. When city-bound she can be found at live music gigs with her friends or cheering on her favourite AFL team – Collingwood. Molly revealed she is partial to watching the UFC too!

Investment Property Market Snapshot



Latest industry statistics and analysis.

Rents fall
SQM Research has revealed capital city asking rents for houses fell over June by 0.5 per cent to $551 p/w. Unit asking rents slipped 0.2 per cent to $444 p/w. Over the year, asking house rents rose 0.4 per cent, while unit asking rents rose by 0.9 per cent. Asking rents: Canberra $631 p/w houses / $450 p/w units; Sydney $714 / $522; Darwin $538 / $402; Brisbane $449 / $369; Adelaide $379 / $300; Hobart $400 / $350; Melbourne $529 / $411; and Perth $421 / $324.

Vacancy rate holds steady
The national vacancy rate was unchanged at 2.1 per cent in May with 69,152 vacancies Australia-wide, according to data from SQM Research. Vacancy rates: Adelaide 1.3 per cent; Perth 4.1; Melbourne 1.4; Brisbane 2.9; Canberra 0.8; Sydney 2.5; Darwin 3.5 and Hobart 0.7.

Median prices decline
According to REIA's Real Estate Market Facts report for the March quarter, weighted average median house prices declined by 0.1 per cent to $770,086 and other dwellings declined by 0.2 per cent to $593,183. Median house prices rose in Hobart, Melbourne and Adelaide, but declined in Darwin, Perth, Sydney, Brisbane and Canberra.

Premium property declines while affordable property rises
Analysis of property values by CoreLogic has found that across the capital cities, the most expensive 10 per cent of properties are seeing values drop, while the most affordable 10 per cent are seeing values rise. Over the year, national dwelling values declined 0.4 per cent, with the most expensive 10 per cent recording falls of 5 per cent, while the most affordable 10 per cent saw values rise 1.8 per cent.

180 day cap on Airbnb
The NSW Government has announced a cap of 180 days per calendar year on empty properties, in Sydney, rented out using Airbnb. Under the new laws, strata corporations will also have the power to ban Airbnb in their building if 75 per cent of owners agree. Outside of Greater Sydney, local councils will be able to impose their own caps, which cannot be lower than 180 days per year.

Investor loans at two-year low
Housing loans for investors are at their lowest point since 2016, according to new ABS data. The value of investor lending declined from $12.6 billion to $10.7 billion over the year to April. Since reaching a peak in mid-2015, investor lending has fallen 27.4 per cent "as a consequence of punitive restrictions on investors," HIA principal economist Tim Reardon said.

Small deposit loans hit historic low
According to APRA's quarterly property exposures statistics, the value of new mortgages written in the March quarter, with an LVR of more than 90 per cent, dropped to $5.79 billion, making it the lowest value since records began in 2008. The value represents just 6.67 per cent of all new loans approved in the quarter.

Rental affordability declines
The Adelaide Bank/REIA Housing Affordability Report for the March quarter has found rental affordability has fallen. The proportion of median family income required to meet rental payments increased by 0.1 per cent, to 24.8 per cent. Rises were recorded in all states and territories except WA and the NT, where affordability improved.

News in brief

Housing slump 'end in sight'

According to Moody's Analytics, the "worst is over" for Australia's housing markets. The CoreLogic-Moody's Analytics Home Value Index is forecasting that house values will fall nationally by 0.5 per cent during the year, with recovery expected in 2019 off the back of "less housing supply and Australia's strengthening economy" which will "support income and rental growth and thus dwelling values". Price falls are expected for Sydney, Melbourne and Perth this year, while the index forecasts slow improvement for much of the country, including Adelaide, Brisbane, Canberra and Hobart.

ATO 'partially effective' when it comes to foreign investment

A report by the Australian National Audit Office has found the ATO was only "partially effective" when it came to detecting non-compliance by foreign investors buying Australian real estate. The system relies on voluntary disclosures due to "serious deficiencies" of the national land register's records of foreign buyer purchases, with the report noting the ATO has a way to go to tackle buyers deliberately breaching the rules and then applying the necessary criminal and civil penalties. There have been 1,158 breaches identified since May 2015, resulting in 1,067 financial penalties worth $5.5 million, and about $285 million worth of foreign-owned real estate has been divested in that time from 231 properties nation-wide.

REIA applies to PSA

The Real Estate Institute of Australia has applied to the Professional Standards Authority for admission as a profession. By becoming a 'profession' agents would need to meet raised education and training standards to achieve professional standing, as REIA would have a legal responsibility to the Professional Standards Scheme to "monitor, enforce and improve the professional standards of their members".

Rentvesting most stressful

Research from HashChing has found that 56 per cent of rentvestors surveyed gave the arrangement a stress rating of six or more (10 being the highest stress rating), making it the most stressful situation for homeowners. It also found 49 per cent of rentvestors were thinking of refinancing their mortgages in the next 6-12 months, making them the cohort most likely to refinance. HashChing stated that much of the stress stemmed from borrowers under-estimating the costs and responsibilities of being a landlord.

Pet profiles online

'Pet Profiles' have been launched on realestate.com.au's 1form, allowing tenants to present their pet in the best light and save PMs time when reviewing rental applications. A study by the site found 48 per cent of PMs were spending considerable time researching animal breeds, temperament and personality when reviewing applications, while one in four tenants were not being completely honest about owning a pet when applying for a rental (with 27 per cent hiding a pet during a rental inspection).

Gentrification hotspots

New data from the Property Investment Professionals of Australia has identified the city suburbs which will be the next to "gentrify". Melbourne: Braybrook, Footscray and West Footscray. Sydney: Arncliffe, St Peters and Tempe. Brisbane: Annerley, Lutwyche and Woolloongabba. Adelaide: Thebarton, West Croydon and Hindmarsh.

Tech watch: new apps and platforms

Gavl enables prospective buyers to identify and bid on auctions in Melbourne and Sydney remotely using live-streaming. Buyers will be able to register to bid, with the platform seeking permission from the listing agent.

Sodichan.com is an international property portal. ACProperty partnered with ListGlobally to launch the portal, which sees listings automatically translated into 16 languages and posted on 120 portals across 60 countries.

Sympli, a joint venture between the ASX and InfoTrack, has applied to become an electronic lodgement network operator (ELNO). The platform will develop an electronic property settlements solution to support lawyers, conveyancers and financial institutions.

Airbnb of office space
Listings for Rubberdesk, billed as the Airbnb of office space, are now being hosted by commercial.realestate.com.au. The space-letting service is tapping into the popularity of co-working spaces and enabling businesses with spare room in their premises to rent out the space to smaller tenants. The average desk rate is $510 a month.

Average home could hit $2.9m
A new study by Aussie Home Loans and CoreLogic has found that the average Australian home value could hit $2.9 million in 25 years if the current rate of growth is maintained. The study noted that if the 412 per cent value growth seen across the country since 1993 was to continue to 2043, Sydney's median house value would be $6.3 million, Melbourne's $5.8 million, Canberra's $2.9 million, Perth's $2.48 million, Darwin's $2.28 million, Brisbane's $2.24 million and Adelaide's would be $1.9 million.