The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

Can you believe it is just a few days until Christmas? This year has simply flown by.

The end of one year and the start of another is often a time when there is a changeover in tenancies. The short-term market ramps up, while those offering student accommodation experience the annual turnover. And of course, for those who rent to families, the looming new school year can result in moves to suburbs with sought-after education facilities.

In this edition we look at vacant rentals and how having a property sitting empty may not only impact a landlord's cash flow, but also their insurance cover.

We also look at the issue of sub-letting and explain why your insurer needs to be in the loop if this sort of arrangement is being allowed.

And finally, we offer some decluttering tips to help tenants, landlords and agents prepare for 2019.

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

On behalf of everyone at RentCover, I wish you a joyous festive season and a prosperous New Year.

My Secret Santa gift to you: To help relieve any seasonal binge guilt, I feel it is my duty to pass on the results of a recent survey… once again wine and chocolate have been linked to living longer. Researchers from The Warsaw University of Life Science found that people who followed an anti-inflammatory diet, which includes chocolate and wine (okay and also fruits, veggies, tea, coffee, nuts and even beer) were 18 per cent less likely to die prematurely, 13 per cent less likely to die from cancer and 20 per cent less likely to die from cardiovascular problems. You're welcome!

Sharon Fox-Slater
Managing Director, RentCover

P.S. **ATO – no, no**

If you are taking a bit of well-earned R&R over the festive season and plan to use some of that time putting together all your paperwork for your accountant to do your 2017-18 tax return, best heed the warning from the ATO about what they are cracking down on this year:

For landlords

Short-term rentals
The ATO will be using new data provided by online platforms, including income received per listing as well as listing dates, enquiry and booking rates, prices charged or quoted per night, and other information, to identify taxpayers not meeting their registration, reporting lodgement, or payment obligations. The new data complements long-term rental information which the ATO already receives from state and territory bond boards.

Property expenses
Legislation from 1 July 2017 means taxpayers are no longer able to claim any deductions for the cost of travel to the investment property (there are very few exceptions). In addition, income tax deductions for the decline in value (depreciation) of previously used plant and equipment in an investment property are no longer permitted.

Remember: Usually your RentCover landlord insurance policy is tax deductible.

For agents

Standard deductions
It is a myth that everyone can claim a "standard deduction" of $150 for laundry, 5,000 kilometres for travel or $300 for work-related expenses. While these are legitimate deductions, the claim must arise from expenses directly incurred for work-related activity – you must have spent the money, it must be related to earning your income and you must be able to explain how you calculated your claim.

Cosmetics
Many taxpayers wrongly believe they can claim skin care products which they think are work-related (e.g. think they can claim cosmetics if they have to attend formal events). Deductions for skincare, including sunscreen, only apply to some workers.

Remember: Your Professional Indemnity and OfficeCover insurance policies are generally tax deductible.

Landlords & Agents

Home office
The ATO is having a compliance crackdown on work-from-home expenses. The tax office is particularly watching for taxpayers who blur the lines between private use and work use expenses, especially phone and internet. They noted many taxpayers are claiming expenses they never paid for, expenses their employer reimbursed, private expenses and expenses with no supporting records.

Remember: If you have income protection insurance (not through your super) like EBM's MaxLife Income Protect product or a policy purchased through EBM Financial Planning, these are also usually tax deductible.

Hello, anybody home?

Having a property sitting vacant can not only mean no income, it could mean no insurance cover too.

The festive season and summer vacation time is often when there is a change in tenants – with the end of school year there is the exodus 'home' for international students, while for families, the looming new school year often means moving to preferred school catchment areas. It is also a time when many landlords will take the opportunity to renovate their rentals.

But whether the rental property is sitting vacant by design (e.g. those that tap into the student market, during renovations or those leaving the premises empty for other reasons) or by circumstance (e.g. taking longer than expected to get new tenants, a lone tenant requiring long-term medical treatment away from the property or as extensive repairs are needed) – if the property is unoccupied for a while, the insurance may no longer be valid.

There is an exclusion in most landlord insurance policies (and home/building covers too) which relates to the premises being vacant or unoccupied. While the specific number of days may vary – it often ranges between 30 and 90 days – most policies cease to apply once the property has been empty for the specified period. For RentCover policies, the time limit is 90 consecutive days and policyholders must tell us and obtain our written agreement for full cover to continue. It should be noted that the applicable excesses also increase when the premises are unoccupied for more than 90 days.

Once the property remains untenanted for an extended period, it will be considered unoccupied. If the property is vacant for longer than the policy allows, one of two things could happen:

The insurer may impose an additional excess on any claims that arise while the property is unoccupied.

The policy may be cancelled.

Insurance is all about risk. When a property is unoccupied it's a prime target for burglars, thieves and vandals – there is an increased risk it could be used as a 'squat' or clandestine drug lab, or suffer malicious damage. Events that may only cause minimal damage if the property is occupied, i.e. someone is there to look after it, can cause much more serious damage if there's no-one at home. As an example, if a water pipe were to burst, the tenant can turn off the mains water supply and call the agent/landlord to arrange an emergency plumber. If the premises are unoccupied, extensive damage could be caused before anyone is on-site to notice the problem.

It is also often the case that, when there is no occupant, the landlord and agent can't get on-site quick enough to protect it against fire, storm or other weather-related perils.

To minimise their exposure to this increased level of risk, insurers impose terms and conditions on leaving a property unoccupied. A vacant property can require either an endorsement or a separate policy, depending on the insurance company and some insurance companies will not insure vacant homes at all. For insurers that will take on the risk, coverage limits and premium costs for unoccupied and vacant homes vary, based on how long the home will be empty and the steps the owner takes to protect the property, such as installing smoke detectors and alarm systems. In most instances, if the insurer agrees to extend cover, the policy will only cover standard perils such as fire and wind, but not perils such as water damage due to burst pipes, glass breakage or vandalism. They may also impose additional exclusions and restrictions on the policy, for example, it may be a requirement to ensure the premises is kept in a 'lived-in' state.

The bottom line: Insurers need to be aware that the property is vacant so they can determine if they will extend cover, under what terms and conditions, at what premium and for how long.

RentCover policyholders whose property will be vacant for more than 90 days should contact our customer service team to discuss their options. Remember, it's a requirement to notify the property's insurer if there is a material change at the premises – and this includes that it is unoccupied for an extended period. Failure to do so can void the policy and leave the owner at risk of having no form of compensation for property damage caused by fire, water or other perils.

Like for like?

There are many reasons why a tenant may look to sub-let their rental, but whatever the reason the landlord needs to be advised – and so does their insurer.

As tenants look to head off on extended holidays, return 'home' for the summer break or seek some help to cover the rent, the issue of 'sub-letting' a rental property frequently rears its head. And while many think this is just a matter between landlord and tenant, it's important for the landlord's insurer to be in the loop too – as generally sub-letting is not covered.

Sub-letting is the practice where a tenant privately organises for someone to pay for use of the home they themselves are renting – it is when they transfer part (not all – as this is assignment*) of their interest under the lease to another person. The person or people named on the lease are the head tenants and those renting from them are sub-tenants. The agreement between them is a sub-lease. The sub-lease may be for part of the premises (e.g. a room) or for a period of the head tenant's tenancy (the head tenant may or may not live in the property at the same time as the sub-tenant). The sub-lease can be for a fixed term or periodic.

If a tenant wishes to sub-let the rental, they must obtain the owner/landlord's written permission to do so, or risk being in breach of the terms of the lease and be served with a notice to vacate. Requirements may differ between states and territories, so check local tenancy legislation. In many jurisdictions, the landlord cannot unreasonably withhold their consent when a tenant proposes to sub-let to someone else and the original tenant (the one named on the lease) will continue to live in the premises. However, landlords can refuse consent if the original tenant proposes a sub-let for the whole tenancy or the whole premises.

Unlike in a co-tenancy, a sub-tenant's name may not appear on the lease. And this poses legal issues if problems arise. Most insurers would caution landlords to insist that all occupants of the home be named on the lease (with the exception being a family situation).

In a sub-tenancy, the head tenant takes on the full legal responsibility of a landlord, which means they must comply with tenancy legislation including regarding matters about bonds and payments, notices to vacate/evictions, maintenance and repairs, and safety and security. At the same time, the owner/landlord still has a duty to the head tenant.

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*Assignment is when a tenant transfers their whole interest in the property to another person (e.g. if a tenant signed a 12-month lease but then decided to leave after six months and they got another person to move in and take over the lease, then the original tenant's interest in the property would pass to the new tenant). The new tenant takes the place of the original tenant, pays rent directly to the landlord and has all the rights and responsibilities of the original tenant. Heads up: Although the original tenant's interest in the property has passed to the new tenant, the original tenant has sometimes been held legally responsible for loss or damage caused by the new tenant.

Importantly, the head tenant – as they are the one named on the lease – is actually the one who is totally responsible for any loss or damage to the home, or for rental arrears. This means the head tenant can be held responsible for any loss that the landlord suffers because of the actions of the sub-tenant. For example, if a sub-tenant caused damage to the property, the landlord could claim compensation from the head tenant, who would have to try and recover the money from the sub-tenant. It is also the head tenant who is responsible for paying the rent to the landlord, regardless of any sub-let arrangement, so if the sub-tenant fails to pay, the head tenant will need to pay up or risk breaching their tenancy agreement.

If that isn't murky enough – cover for sub-letting is generally excluded in landlord insurance policies.

Sub-letting dramatically increases the risk of damage to a property and also blurs the lines of responsibility for that damage. For these reasons, landlord insurers are reluctant to take on the risk of offering cover for properties being sub-let as their right of subrogation (i.e. their ability to recover costs) is restricted when multiple people share a property and/or it can't be proven who caused damage etc.

If a sub-letting arrangement has been agreed between landlord and head tenant, the landlord or agent should contact their insurer to discuss options for cover. The insurer may agree to extend cover (and may state that certain sections of the policy will not apply) or insist on separate policies being taken out to cover the individual risks of each tenancy agreement (landlord policies generally only cover one lease at a time). Or simply decline to extend cover.

At RentCover, we will consider the situation on an individual risk basis. Landlords or their agents should contact our customer service team to discuss any sub-letting arrangements and the implications for the landlord's insurance cover.

Tell me Kondo, Kondo, Kondo

With the New Year fast-approaching, many will take the opportunity to have a big clean-up. Landlords, tenants and agents can use the key strategies from decluttering doyenne Marie Kondo to, if not 'spark joy', at least get a handle on the clutter.

When it comes to accumulating 'stuff' many of us have ascribed to the 'more, more, more' philosophy for a long time. But in recent times there has been a concerted move towards 'less is more' whether in response to environmental concerns over resources, economic imperative or simply a desire to downsize or truly enjoy those things we have.

Along with the movement has come the train of decluttering gurus with their techniques and tips to make living with less and enjoying more a reality. The undisputed queen of the declutter is Japan's Marie Kondo, whose method is so well known to 'Kondo' has become a verb!

Agents, landlords and tenants alike can use Kondo's two-step approach to tidying to help wrangle the tangle:

Step 1:
Put your hands on everything you own.
Ask yourself if it sparks joy.
If it doesn't, thank it for its service and get rid of it.

Step 2:
Once only your most joy-giving belongings remain, put every item in a place where it's visible, accessible, and easy to grab and then put back.

The KonMari Method encourages individuals to be thoughtful about choosing the belongings they wish to keep. The basis of Kondo's philosophy is about asking "Does this spark joy?" when deciding whether or not to keep or discard a piece of furniture, clothing or any other possession.

"The secret of success: Start by discarding. Then organize your space, thoroughly, completely, in one go. If you adopt this approach you'll never revert to clutter again," Kondo writes in *The Life-Changing Magic of Tidying Up: the Japanese art of decluttering and organizing*.

The 6 KonMari rules:

Rule 1
Commit yourself to tidying up.

Once you have made up your mind to tidy, all you need to do is apply the right method.

Rule 2
Imagine your ideal lifestyle.

"Think about what kind of house you want to live in and how you want to live in it. In other words, describe your ideal lifestyle. When you imagine your ideal lifestyle, you are really clarifying why you want to tidy and identifying the kind of life you want to live once you have finished," states Kondo.

Rule 3
Finish discarding first.

"Effective tidying involves only two essential actions: discarding and deciding where to store things. Of the two, discarding must come first", Kondo notes.

At the heart of this is the philosophy that "to truly cherish the things that are important to you, you must first discard those that have outlived their purpose". So if an item doesn't spark joy or serve a specific purpose, it's time to say "thank you and goodbye".

Rule 4
Tidy by category, not location.

For example, when tidying clothes, gather every item of clothing from the entire house in one spot. This allows you to see exactly how much you have. It's very important to get an accurate grasp of the sheer volume for each category.

"One of the most common mistakes that individuals make when tidying is that they spend so much effort storing things that they may no longer even want or need," Kondo told *Architectural Digest.* "Before considering storage, remove all of your belongings from where they are currently kept. Hold them one by one as you ask yourself, 'Do I truly need this?' or 'Does it spark joy for me?'."

It is also important that every item has a specific place so it can be returned easily. Kondo is not a fan of 'storage' solutions, instead advocating for storing items in a way that you can see everything i.e. store belongings standing upright. "This will allow you to see what's inside at a glance and take inventory of what you own," Kondo says. "If you store your clothes in a drawer standing upright, you will be able to survey how many articles you own that are the same colour. This will prevent you from unknowingly buying more of the same type of clothing."

Rule 5
Follow the right order.

Kondo has come up with the ideal order in which you should tidy up:
Clothes
Books
Papers
Komono (miscellaneous stuff)
Mementos (things with sentimental value)

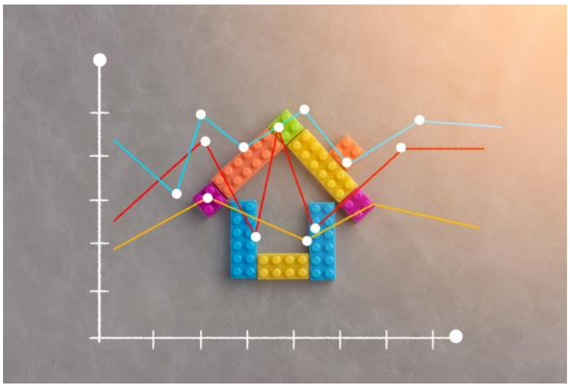
You can then separate everything out from each category into sub-categories which will make the process even easier as you can visualise what you have, what you need, and what does or doesn't bring you joy.

Rule 6
Ask yourself if it sparks joy.

Remember: you are not choosing what to discard but rather what to keep. Keep only those things that bring you joy.

Once you've decluttered and organised, it's an ideal time to check that your insurance cover is adequate. Speak to our TenantCover and RentCover customer service or an OfficeCover broker (or contact an EBM PersonalCover broker for the right Home & Contents cover for your own home) to review your policies and ensure you've got the right cover for those things that are important to you.

Investment Property Market Snapshot



Latest industry statistics and analysis.

Asking rents up

Capital city asking rents for both houses and units rose 0.2 per cent in November to $553 p/w and $438 p/w respectively, SQM Research data reveals. Across the capitals: Canberra ($638 p/w for houses / $449 p/w for units); Sydney ($711 / $512); Darwin ($491 / $391); Brisbane ($453 / $371); Adelaide ($387 / $299); Hobart ($420 / $374); Melbourne ($526 / $405); Perth ($429 / $320).

Vacancies dip

According to SQM Research, the national residential vacancy rate fell to 2 per cent in October – the lowest level since March 2014. Nationally there were 67,350 vacant properties, down from 70,172 in September. Rates fell in Perth (from 3.6 per cent to 3.3 per cent), Melbourne (1.7 / 1.6), Brisbane (2.9 / 2.7) and Hobart (0.4 / 0.3), while rates held steady in Adelaide (1.1 per cent), Canberra (0.6) and Sydney (2.8). Darwin was the only capital to record an increase, from 3.6 per cent to 3.8 per cent.

Capital city home values steady

Combined, the daily home value index fell 0.2 per cent in November, according to CoreLogic's *Property Market Indicator*. Perth and Brisbane held steady, while Melbourne (-0.4 per cent), Sydney (-3 per cent) and Adelaide (-0.1 per cent) recorded falls. Values were down 4.9 per cent for the year, with Sydney (-6.9 per cent), Melbourne (-5.4 per cent) and Perth (-3.6 per cent) the main drivers.

Listings up

Data from CoreLogic's *Property Market Indicator* revealed listings were up across most capital cities in November; however, Sydney (down 9.9 per cent), Melbourne and Brisbane recorded declines. Hobart listings rose 19.4 per cent, while Darwin was up 16.4 per cent. Average time on market also rose, with Canberra (27 days), Hobart (29 days) and Melbourne (34 days) the best performers, while Darwin (74 days) and Perth (72 days) recorded the highest number of days on the market. Vendor discounting was between 4.5 per cent and 7.5 per cent for houses across most capitals, and between 5.5 per cent and 10.6 per cent for units.

Rental increases at 25-year low

Figures released by the ABS revealed rents over the year to September 2018 increased by just 0.6 per cent on average – the slowest rise since 1993. There was marked variation between the capital cities over the 12 months, with Hobart recording a rent rise of 4.5 per cent, Canberra 3 per cent, Sydney 1.9 per cent, Melbourne 1.8 per cent and Adelaide 0.8 per cent. Substantial declines were recorded in Perth with -6.1 per cent and Darwin at -4.6 per cent. Brisbane rents were down -0.1 per cent over the year.

House prices fall

According to Domain's *House Price Report* for the September quarter, nationally, house prices fell 2.6 per cent over the quarter and 2.9 per cent over the year to $781,787. Unit prices were also down 1.6 per cent over the quarter and 1.4 per cent over the year to $549,163. Except for Perth and Darwin, the report found all capitals were now underperforming relative to last year.

Land demand up
The median residential lot price for capital cities rose by 3.8 per cent to $336,124 over the June quarter, according to the *HIA-CoreLogic Residential Land Report.* Although the price of resi lots rose, the number of sales over the June quarter was down 22 per cent compared to the previous year.

Home values continue to decline
CoreLogics's *Hedonic Home Value Index* revealed property prices declined 0.5 per cent nationwide in October (0.6 per cent in combined capital city home values and 0.2 per cent in combined regional home values). The sharpest decline was recorded in Perth (-0.8 per cent), followed by Sydney and Melbourne (both -0.7 per cent). Hobart (+0.9 per cent) and Adelaide (+0.2 per cent) were the only capitals to record a rise in values. National home values fell 3.5 per cent over the year to October, the weakest result since February 2012.

Investor lending drops
ABS housing finance figures for September showed investor lending fell 2.8 per cent from the previous month (seasonally adjusted), putting them at the lowest level since July 2013 – and down 18 per cent over the past 12 months. A total of $9.751 billion in investor loans were approved, accounting for 39.4 per cent of all new loans. Investment lending for the construction of new property fell 2.5 per cent, investment property for individuals fell 0.6 per cent and investment lending for other entities (e.g. SMSFs) dropped 2.2 per cent.

Apartment market continues to "flatline"
Urbis's *Apartment Essentials* report determined the Australian apartment market is continuing to "flatline", a scenario it does not see reversing any time soon. The report noted sales activity is slightly above the quarterly average at 1,330; approved apartment volumes have declined to their lowest level in three years at 4,000; apartment stock rose up to 10.4 per cent; the weighted quarterly average hovered between the high-$600k mark and the mid-$700k mark while 9 per cent of projects were priced at or above $1M; and three-bedroom apartments made up 15 per cent of sales. Urbis also found demand remained consistent but focussed more towards the affordable end of the market.

Melbourne tops for investors
According to the Urban Land Institute and PwC's *Emerging Trends in Real Estate Asia Pacific* report for 2019, Melbourne is the best prospect in the region for both investment and development. The Victorian capital beat out markets like Singapore, Tokyo, Osaka and Sydney as it offers a constrained office supply pipeline, a good yield spread over the cost of debt and sovereign bonds, a deep, liquid, core market and good prospects for rental growth. Industrial was named the top option for investors (particularly logistics facilities), followed by office and retail.

News in brief

NSW changes stamp duty

The NSW Government has announced that from 1 July 2019, the seven stamp duty tax brackets will move in line with CPI. Indexing the tax to inflation will save the average property buyer $500 when the move is introduced, and that amount will increase over time.

WA passes strata reform

The WA Government has passed the *Strata Tiles Amendment Bill 2018*, which it says will bring a range of benefits for strata living arrangements through better regulation of strata managers and improved dispute resolution processes. The legislation change will improve the way strata schemes are developed and managed and provide for development of new and innovative housing options and greater housing choice.

NSW simplifies bond rollover process

The NSW Government says tenants will benefit from the reforms passed in November. Under the reforms, the rental bond rollover process has been simplified, allowing tenants to easily transfer their bond from one lease to another. Previously tenants were required to have vacated a property before their bond could be returned, which usually overlapped with paying the bond on a new home – which many found a financial struggle.

PEXA acquired

Australia's online property exchange, PEXA, has been acquired via a joint bid from Link Administration Holdings Limited, Morgan Stanley Infrastructure Partners and Commonwealth Bank of Australia (which was already a key stakeholder in the venture along with other banks and state governments). Property Exchange Australia was floated at $2 billion. In other PEXA news, PEXA Plus is being rolled out in NSW, SA and WA. Plus provides members with tools to manage their digital conveyancing workloads by enabling them to manage multiple property settlements on one dashboard with a traffic light system.

Aussies say it's a good time to buy

According to Westpac's consumer sentiment survey, there was a 11.8 per cent surge in respondents thinking it is the right time to buy a dwelling – up nearly 17 per cent on last year. With national house prices falling 3.5 per cent over the past 12 months, respondents are anticipating further falls, with expectations of house prices declining by 2.3 per cent.

Advocates urge Govt to address affordability gap

With the National Rental Affordability Scheme (which provides incentives to housing providers offering rentals at least 20 per cent below market rates), winding down at the end of the year, welfare, charity and housing groups are urging the Australian Government to address the affordable housing issue or risk thousands being pushed into homelessness. Almost 35,000 rental properties are subsidised through the NRAS and next year more than 1,400 properties will be taken off the scheme – which completely shuts off in 2026.

ATO warns about tax debt scam

The ATO is warning taxpayers about a new scam that has seen victims lose thousands of dollars. The scammers first call impersonating the tax office and request the name of your tax accountant. They then initiate a three-way phone conversation with you and another scammer impersonating someone from the agent's practice which can seem like a legitimate conversation. If in doubt, hang up on the initial call and contact your tax agent directly to ask about the status of your tax affairs, the ATO advises.

Older renters face hurdles

A report by the Bankwest Curtin Economic Centre that examined issues older tenants face in the private rental sector found they faced a lack of tenure security, despite 41 per cent wanting to sign long-term leases and another 23 per cent being open to a lease extension if it was available. The research found many older renters had only been in their current home for up to three years, with 41 per cent forced to leave their previous rental due to factors beyond their control. The report authors suggested policy measures could be introduced to make private rentals more affordable and leases more secure, such as through tax incentives to landlords (in particular to make modifications to properties to make them safe and secure for older tenants) and an appropriately structured build-to-rent sector.

Investors would rather be in traffic jam than apply for loan

The *2018 St. George Home Buying Survey* has found investors would rather sit in peak hour traffic (17 per cent), endure a 14-hour flight without entertainment (17 per cent), visit the dentist (20 per cent) or have dinner with their in-laws (22 per cent) than apply for a home loan. In addition, it was found 47 per cent of respondents said they put off a home loan application because it is too hard. Difficulties included too much red tape/paperwork (28 per cent), not knowing where they stand (23 per cent) and how long the process is (23 per cent).

CBA ceases reverse mortgages

The Commonwealth Bank and its subsidiary Bankwest have announced they will be removing their reverse mortgage products (Equity Unlock for Seniors and Seniors Equity Release, respectively) from sale from 1 January 2019. Existing customers will continue to be supported. With this move, there are now no major banks offering reverse mortgages.

Industry questions migration cuts

The Housing Industry Association and the Property Council of Australia have both questioned the Australian Government's plan to cut back the migration intake. The industry groups noted that population growth has led to a boom in residential building and changes to the policy could negatively impact the building and property sectors. HIA stated that increased imposts on foreign investors had already resulted in a shift away from migration and investment in Australia.

IMF welcomes property price falls

The International Monetary Fund's analysis of the Australian economy has "welcomed" the housing market downturn. "In the absence of a sharp rise in unemployment, interest rates, or housing inventories, an orderly correction in housing prices will help contain macrofinancial vulnerabilities", the analysis noted. "Pressures on housing affordability, which is critical for growth to remain inclusive, will be relieved in the process."

Mortgage knowledge declines

Gateway Bank's *2018 Mortgage Holders' Sentiment Report* revealed that many Australians are not familiar with common mortgage terminology and understanding of these terms was down from 2017. Just 56 per cent of respondents indicated they were aware of the term redrawn facility (down 4 per cent), while 55 per cent understood what was meant by home loan insurance, 53 per cent offset account (down 3 per cent), 40 per cent lenders mortgage insurance, 26 per cent loan to value ratio and 20 per cent portability. The most significant decline was in the number of mortgage holders who understood the difference between a comparison rate and an interest rate, down from 36 per cent in 2017 to just 31 per cent in 2018. The only area where knowledge improved was in awareness of split home loans, with a 1 per cent increase to 34 per cent of mortgage holders understanding the term.

Ratings agencies predict mortgage arrears increases

Moody's Investors Services is predicting mortgage arrears will increase slightly in 2019 as a result of the property market slowdown. The ratings agency expects NSW and Victoria would be the most affected due to high household leverage in these states and the impact of IO loans switching to P&I repayments. S&P also noted an ongoing increase in the number of mortgages more than 90 days in arrears and expects falling house prices to put further pressure on repayments in the months ahead. Morgan Stanley, in its *Household Deleveraging Risk Indicator*, also concluded that Australia's economy is most at risk in the developed world from household debt reduction because of weak house prices and potential tax changes that could curb property investments. Sweden and Canada ranked joint second, and Norway came in third at risk.

Uber Eats trumps kitchens

The *2019 McGrath Report* identified a couple of housing trends to watch in the coming year. First was a tendency towards smaller homes, with Aussies requiring less space due to a trend for minimalism and also higher numbers of people opting for dining out or meal delivery services over kitchen and dining spaces. Second was shared spaces in modern developments allowing for smaller residences, with added function built into these areas which encourage activity outside of apartments or townhouses.

Royal Commission to put downward pressure on prices

A survey of property lawyers and conveyancers by GlobalX revealed two-thirds saw the Royal Commission, and the resultant probable further tightening of credit policies from banks, putting downward pressure on property prices – 55 per cent predicted a price fall within the next six months, 41 per cent saw prices remaining stable and just 4 per cent believed prices will rise.

Rental affordability at crisis point

The latest *Rental Affordability Index* found while rental prices have improved marginally in some cities, the gains have not flowed through to low-income households. More than one million households currently need some form of housing assistance, while 45 per cent of low-income households experience rental stress. The report noted that single mothers are paying up to 70 per cent of their income on rent. Hobart was named the least affordable capital, followed by Sydney.