The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

It's 2019, can you believe it? Last year went by in a flash and while I don't have a crystal ball to predict what will happen in the property investment/landlord and real estate sector this year, I am tipping it will be another rollercoaster!

There's a federal election on the horizon and no doubt property and tax will remain on the agenda in the lead up (carrots and sticks at 40 paces!). We are likely to see the inevitable fallout from the Hayne Royal Commission, coupled with continuous intervention from APRA and the RBA to curb investment. Then of course there's the highly volatile economic climate and in particular the highs and lows of property to contend with, not to mention bracing for predictions of a property Armageddon that some commentators are so keen on spruiking. Fasten your seatbelts, we're in for a bumpy ride!

Despite the ups and downs, property has remained a solid investment for decades, but it is also wise to look at portfolio diversification. So in this edition, we have an article from EBM Financial Planning about just that.

We also suggest a few New Year's resolutions – with an insurance bent of course! – for landlords and agents. And we offer some tips on how to avoid the New Year spike in rental arrears.

Quite literally on a brighter note, we look at how Pantone's Colour of the Year could be incorporated into rentals.

We hope you enjoy the first edition of *The RentCover Report* for 2019.

Sharon Fox-Slater
Managing Director, RentCover

For the sake of auld lang syne

Start as you mean to go on in 2019 with these New Year resolutions.

It's a new year, with new leaks to fix, new tenants to screen, new rental agreements to sign up, and new legislation to come to grips with!

January is a great time to review your plans – and insurances – to make sure you set yourself up for a productive and profitable 12 months.

Why not get off to a great start with these six New Year resolutions for landlords and agents?

Resolution 1: I will review my insurance cover
Whether your policies are due for renewal or not, the start of the year is an opportune time to check that your insurance covers are up-to-date. For property covers (RentCover products, Commercial Landlords Insurance Policy (CLIP) and OfficeCover), make sure to review the sum insured so your cover is adequate.

Landlords should check that they have the right type of policy for the way they are leasing their rental (different policies are needed for fixed-term tenancies and short-term leases). While agents should ensure that their Professional Indemnity cover is current. You should speak with your insurance broker to ensure that your business is adequately covered for the unique risks operating within the real estate sector poses too.

It's also a good time to remind tenants that they need renters' contents insurance, like TenantCover, as landlord's insurance won't cover a tenant's personal belongings if they get damaged or lost from a range of insured events like theft, fire and storm.

Resolution 2: I will keep up with maintenance
Repairs, urgent and otherwise, need to be attended to in a timely manner. Make sure you adhere to your obligations under the law.

Adequately maintaining the property is a requirement for insurance cover and failing to do so could result in a claim not being paid. So keep on top of regular upkeep with an effective scheduling system – it will not only keep tenants on side, but also safeguard the property's insurance cover.

It's important that both landlord and agent understand any obligations that are part of insurance coverage. For example, the requirement to help mitigate further loss by taking swift action if the property suffers damage.

Resolution 3: I will update my little black book of trades
Having trusted, reliable and quality tradies and contractors on speed dial is a must. Check that those already on your list are still available (it's been a bit of a topsy turvy time for trades and many have moved on or ceased trading), licensed, insured and have current police clearances.

Cultivate a preferred vendors list and make sure to check their references.

Resolution 4: I will find and keep the best tenants
If the New Year sees a changeover in tenancies, carefully vet any prospective new renters. Don't scrimp on the checks – references, employment, credit – even if it has been difficult to lease the property. While some may think it's better to have any tenant than no tenant at all, having the wrong tenant can be costly if they fail to pay rent or damage the property. Adopt a thorough and consistent screening process – and apply it each time.

Resolution 5: I will protect the personal data I hold
Cyberattacks and data breaches are frighteningly common – and as you hold private data about your tenants etc., you need to look after it. Make sure to have a sound cyber security strategy and measures in place to protect the information you hold – two-factor authentication, strong passwords, updated software, protocols and processes for data management, and best-practice procedures for payments. Cyber Liability insurance cover will help protect your business.

Resolution 6: I will know what I need to know
Real estate is constantly evolving and you need to stay on top of new rules and requirements, like reforms to tenancy legislation or tax regimes. Much like licensing or law, when it comes to insurance, ignorance is no excuse for not doing what is required. Make sure you understand what your insurance policies do and don't cover and what you need to do to meet your obligations under the policy.

Despite research from the Statistic Brain Research Institute, which suggests that just nine per cent of people keep their New Year's resolutions, these six should be a lot easier to stick to than those old chestnuts of "I will get fit", "I will lose weight" and "I will save money". In fact, if you have the right insurances in place, you will be a lot closer to being financially fit, alleviating the weight of worry about 'what ifs' and ultimately save money by protecting your assets!

Cheque’s not in the mail

The New Year often means rental arrears spike. Landlords and agents can use these tips to help limit the risk of rent default.

Rent default can become a serious issue for landlords over the festive and New Year period as tenants forgo paying rent in favour of buying gifts and celebrating. And it’s a problem that can stretch into the first months of the year as the festive financial ‘hangover’ lingers and the start of the school and work year means inevitable expenses.

As a result, claims for lost rental income spike in the first three months of the year and landlords can find themselves facing thousands of dollars in rental arrears – as these claims examples from this time last year illustrate:

Claim example 1
A tenant in Victoria stopped paying rent in early December 2017. Although they were issued with a notice to vacate toward the end of January 2018, the tenant refused to leave and a court order was issued granting possession of the property. However, as the tenant continued to refuse to vacate, a warrant of possession was carried out by the police and the tenant was finally evicted at the end of February. The landlord was able to make a $7,711 claim which covered the initial six weeks’ rent default and the denial of access period after the notice to leave expired, until the tenant left the property.

Claim example 2
The tenant lost their job in early December and stopped paying rent on the property in NSW. Despite the agent attempting to contact the tenant, there was no response and when they checked on the property they found the tenant had abandoned the premises, leaving behind rubbish and some possessions. The tenant eventually contacted the agent and advised they had moved interstate for work. A total of $3,250 was paid to the landlord, which covered a claim for five weeks’ loss of rent (two weeks’ arrears and 21 days’ required notice period as the tenant was on a periodic lease).

Claim example 3
A Western Australian tenant had a history of being in arrears but completely stopped paying rent in December. They were issued a termination notice to vacate the property in early January. However, the tenant did not vacate and the matter went to tribunal. The tribunal ruled that as the tenant was in hardship and unable to find another property at that time of year, they could stay in the property until the start of March, on the condition that they kept to the payment plan stipulated. The tenant did not keep to the payment plan and vacated the property on the date specified by the tribunal. The $5,613 claim covered six weeks’ rent default, the denial of access period from after the termination notice expired until the tenant vacated the property, and, as the tenant was on a fixed-term lease, also covered some of the loss of rent while a new tenant was found.

Want to avoid the risk of having your claim held up as a cautionary tale for others?

10 tips to help landlords and agents minimise the risk of rental arrears:

1. **Screen tenants**
   Background checks on prospective tenants are crucial (but make sure any checks you do comply with your state's tenancy legislation). Check industry databases, call up referees, speak to previous landlords and agents, and verify employment and income. It can often be beneficial for the landlord to meet the tenant, as a tenant may be less likely to default on their rent if they have a face to go with the hardship of their not paying and not just an account number that their rent gets transferred to.
2. **Be vigilant**
   Once a tenant has moved in, conduct regular property inspections. 'Red flags' may suggest absconding or defaults are on the horizon, for example the home is packed up although the lease is not close to expiry. Maintain an up-to-date record of tenant contacts (home, work and mobile numbers, email addresses), including details of a relative to contact if you can't contact the tenant.
3. **Maintain good rapport and a positive working relationship**
   Disgruntled tenants are more likely to break their rental agreements, abscond or default on rent. On the other hand, happy tenants are more likely to pay their rent on time, stay in the property longer and look after it as if it were their own.
4. **Communicate with the tenant**
   Open and transparent communication with tenants can often mean that they notify you of payment difficulties. Knowing there is a problem can mean that a plan to tackle the arrears can be created to keep everyone happy.
5. **Set a formal routine**
   Clearly explain the rent payment procedure to tenants so there is no 'grey area' from the outset. Adopt a zero tolerance policy for rent arrears and nip late payments in the bud early before it turns into a chronic situation. Set up automatic payments such as direct debits, with very few or no exceptions.
6. **Put systems in place**
   Having procedures in place to deal with unpaid rent means you'll be on top of the issue. Subject to the laws in your state, contact tenants immediately they are in arrears and request payment. A documented plan of addressing arrears should include timeframes for action (e.g. phone calls, letters, formal notices, tribunal/legal proceedings) and take into account the legislative requirements.
7. **Monitor arrears daily**
   Agents should produce an arrears list – and act on it. Landlords should monitor their bank account the day the rental payment is due and continue to monitor the account daily, ensuring the payment is received or get in touch with the agent for an explanation.
8. **Show some compassion**
   There are circumstances that can legitimately impact a tenant's ability to pay, such as job loss, relationship breakdown, illness, partner death or unforeseen expense, and if they were otherwise an ideal tenant consider what can be done to help (so long as it is economically feasible). However, don't accept just any excuse and be cautious of tenants with highly believable, yet continual, excuses for late, partial or non-payments.
9. **Take rectification steps**
   If you end up needing to evict or go to court over the matter, having all your paperwork in order will help your case. You need to understand the legislated procedures and how you can seek restitution or eviction.
10. **Ensure rental income is protected**
    Neither landlord nor agent rents a property to a tenant expecting that they'll default on their payments, but sometimes life and circumstances beyond anyone's control can derail even the best intentions – making comprehensive landlord insurance cover an effective risk management strategy.

Heads up: If a landlord needs to make an insurance claim for rental loss, it's important that the eviction process has taken place. Eviction usually takes weeks, so landlords and agents need to act quickly in rent arrears cases to limit the financial impost endured before claiming and to meet their obligation under the policy to prevent further loss.

Are all your investment eggs in one basket?

Historically property has been a sound investment. However, investors may be missing out on securing their financial future by not diversifying their portfolios. A financial planner can help you feather your nest by providing tailored investment advice.

It's probably fair to say that if you are reading this, you are not new to the idea of property investment. For many years, investing in a rental property has been the go-to strategy for many Australians – from mums and dads looking to secure a good retirement, and rentvestors setting out to own a property they can afford while renting a home to suit their lifestyle, to entrepreneurs creating impressive property portfolios as a career, and those with self-managed super funds using tax breaks to move into property.

You can invest in property directly (for example, when you buy a house or commercial premises such as a shop or office) or indirectly (for example, by purchasing units in a property trust that is listed on a stock exchange). Some of the advantages of investing in property include an income in the form of rental payments, some tax concessions on income, and capital growth if the value of the property holdings increases.

"Historically, property investment has yielded good results. Over the last 20 years, Australian property has produced annualised returns of 7.40 per cent.[*] However, over the course of those two decades, returns fluctuated dramatically – according to Morningstar data, in December 2006, the return reached a peak of 34.06 per cent, but in contrast hit a low of negative 53.99 per cent two years later," explained EBM Financial Planning Managing Director Jay Manley.

"Property[†] – whether it's residential, commercial, retail, hotel or industrial – is a medium-term investment option, by which we mean three to five years, so those entering the market need to be able to stay the course and weather the inevitable fluctuations as the value of investment and income varies," Jay cautioned.

The old saying "safe as houses" has held true over the centuries. But the adage "don't put all your eggs in one basket" has proved to be prophetic too.

Amid the scaremongering headlines ("housing bubble!", "property bust!", "recession!"), uncertainty about how property investment will be regarded by whichever political party is in power (Labor plans to limit negative gearing and capital gains tax deductions, the Liberals may 'tweak' their policies), diminishing tax incentives and mounting restrictions on lending for investment purposes, many investors are carefully considering the 'risks' in property.

Jay says that investment diversification is the key to spreading risk and achieving consistent long-term returns.

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[*]Compared to the 20-year annualised return of 7.40% for Australian property, Australian cash returned 4.50%, Australian shares 8.70%, global shares 5.00%, Australian fixed interest 5.90%, global fixed interest 7.20% and multi-sector balanced 6.90%. Source: Morningstar, data to 31 December 2017. Please note: past performance is no indication of future performance.
[†]Property (like shares) is usually classified as a growth investment. As well as income, growth investments aim to increase the value of the capital invested. While investment returns are expected to fluctuate over the short term with market movements and economic changes, growth investments have the potential to produce higher returns than defensive investments (such as cash and fixed interest products) over the long term.

“The first lesson in investing is that ‘risk equals reward’ – the higher the risk, the higher the potential reward, but also the higher the risk of not making money. But the simple fact is that all types of investment involves an element of risk,” he said.

These risks include:

- Market risk – the possibility that market movements could cause the value of your investment to fall in value
- Investment risk – the risk that the investment(s) you have selected do not deliver the expected returns
- Regulatory risk – the risk that changes in rules, legislation or government policy could have an impact on your financial strategy
- Liquidity risk – the risk that you are unable to readily access your funds because they are invested in illiquid assets (those which are difficult to sell quickly)
- Inflation risk – the possibility that your investment delivers returns below the inflation rate
- Interest rate risk – the risk that an increase or decrease in interest rates could adversely affect your investments
- Timing risk – the risk that the time you choose to enter or exit the market may not deliver the best results for your investment goals
- Concentration risk – the risk that if you have placed all your investment capital into one asset class (e.g. Australian property), a fall in that market will adversely affect all your capital

“In order to successfully invest for your financial future, you need to understand the risks that are associated with the various types of investment asset class and also look at ways of mitigating those risks,” Jay explained.

Jay noted that diversifying across asset classes, industries and funds would help minimise the impact of unexpected market shocks. For example you can invest:

- across different investment types or asset classes (cash, fixed interest, property, shares, alternatives)
- in more than one investment within each type (e.g. in several different types of property such as residential, retail, commercial or industrial)
- in more than one type of fund, and with more than one fund manager, when investing in managed funds
- inside and outside of super.

By investing in several asset classes, you spread your risk and can offset underperformance in one asset class with positive performance in another.

“Ultimately, investing is about getting the mix right. Getting a mix that is best for you in terms of your financial and lifestyle goals, your timeframe and your risk tolerance,” Jay said.

“This is where a financial planner can help, as we take a holistic view of your finances, not just recommend investment products. We look at the individual and provide strategies to help you achieve financial security.”

Armed with a good understanding of where you are financially today and where you want to be in the future, can help you make informed investment decisions. Talk to an [EBM Financial Planner] about the best options tailored specifically for you.

Colour me coral

Pantone has quite literally set the tone for 2019 – prepare for an orange renaissance!

Hermès aficionados notwithstanding, orange has not been in the interiors and fashion limelight since 2012, when Tangerine Tango was decreed Pantone's colour of the year (and prior to that in 2004 with Tigerlily). But all that is set to change with the announcement that Living Coral is 2019's Colour of the Year.

Living Coral (Pantone 16-1546) is "an animating and life affirming coral hue with a golden undertone that energises and enlivens with a softer edge", according to Pantone.

Coral's legacy in decoration stretches back at least as far as Ancient Greece. It was popular in fashion and decor in the late Victorian era and saw a resurgence in the 1950s when it was often contrasted with teal.

Then of course there was the 1980s, when the fruity (think peach and apricot) and fishy (hello salmon!) shades of orange dominated interiors from the tropics to the mountains. Circa 1984, *Miami Vice* was setting the sartorial scene and coral was the hue *du jour* in homes – teamed more often than not with leafy Boston ferns and macramé hangers, squishy leather sofas and gold-plated coffee tables (Crockett and Tubbs would have approved).

Thirty-five years on, the time for a coral renaissance is right according to Pantone.

"In choosing the colour of the year, we look at everything around us. We look to see what people are doing in beauty and in fashion and in art; we look to see what people are wearing, and buying, and posting about on social media," explained Leatrice Eiseman, executive director of the Pantone Color Institute.

"In a time when so many of us are increasingly immersed in digital experiences that can be cold and isolating, Living Coral felt like an appealing share of connection. There's just something about the colour that feels earthbound and welcoming, optimistic and intimate. And those are the reasons Living Coral is so applicable in the home and design space."

For landlords and tenants looking to tap into the colour zeitgeist, the shade is probably best used as an accent colour and in accessories like cosy blankets and lush upholsteries. Although some are suggesting it would make a bold statement as a feature wall to help "aid a comforting and nurturing feeling in the living space" and Eiesman says "it's the kind of colour you could paint a whole room – it would be great in an entryway or a bathroom", it may be best avoided in rentals lest risk those 80s salmon wall and matching couch flashbacks – or unintended irony for those abodes not exactly embodying the height of interiors fashion.

Interiors experts suggest it will pair well with white-hued spaces (handy, as white is the most popular colour choice for rentals) or add a splash of vibrant contrast to areas decorated with shades of turquoise and yellow. It will pair impeccably with deep and dark hues such as matte black and blues (lido, oceanic and aqua).

“The most complementary would be the blue family,” advised Eiseman. “Blues just make corals pop – just as it does in the ocean, or a beautiful blue sky and a sunset. It makes for a dynamic combination. We can also use it with blue green, which is always a beautiful combination. Or you can use it with hot pink for a nostalgic vibe.”

Eiseman also suggests it will work across all seasons: “We think of it in tropical climates, in a gorgeous sunset, so it has a summery vibe. But it is equally effective in all seasons. In winter time, it’s an introduction into terracotta and earth tones; it coordinates beautifully with other colours in the same family.”

An interiors refresh is also a great time to take stock of the property’s contents and ensure that it is adequately protected. Check in with our RentCover or TenantCover customer service consultants to make sure your sum insured meets your cover requirements.

Staff profile: Mike Yates

Knit one, IT two?

"I tell people that I wanted to do knitting but the queue for the college course was way too long. The IT course only had a few people in it, so I went there instead," joked Mike Yates, EBM's National Manager – IT&T.

"In reality, I've always liked technology. I was never one of those people who were afraid of it. I always wanted to get in and figure out how it worked."

It's been some thirty years since Mike's college days in the UK and it's fair to say his IT career has been varied.

"My first job was working on the implementation of a stock control system into a factory that made toilets," Mike recalled.

But it's variety in his role with EBM that Mike relishes: "I can go from implementing a new system to cyber security to changes to CBS to new PCs in the course of a couple of hours. I also love the fact that technology changes all the time and IT have to keep up, bringing innovation back to the business and applying it."

Mike has experienced a lot of change in IT since his first job in 1984 (with his career commencing pre-internet, pre-email, pre-notebooks, pre-laptops…) and brought the constantly-evolving technology into operation across numerous industries. The IT landscape today presents a number of challenges and it keeps Mike and his 10-strong team busy.

Having joined EBM in May 2015, Mike is responsible for all aspects of IT within the company.

"At a high level, I start by looking at our strategic plans and what we need to be doing over the next three years to deliver those strategic goals. Understanding that, together with what we have today, shapes our IT architecture and that defines the roadmap of change we require and the money needed to deliver those projects. Then we need to make sure everything performs properly once it has been delivered."

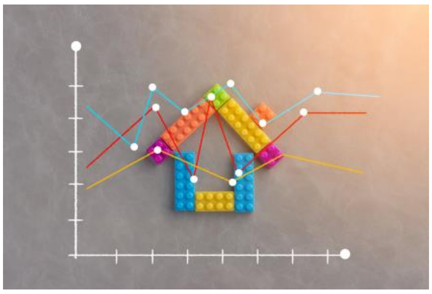
Importantly, Mike is supported by EBM's management, who have a desire to move the business forward and embrace technology. Which makes for a great working environment: "There is a really good feel at EBM. And that's important to me."

Away from the office, Mike forgoes the tech and heads to live music gigs.

"I'm a big fan of live music, so I get to as many shows as I can. There's not much that I don't like on the music front," Mike said.

Mike's a keen traveller and having moved to WA from the UK five years ago, he is enjoying exploring his new home – journeying as far south as Albany and as far north as Exmouth so far.

Investment Property Market Snapshot



Latest industry statistics and analysis.

Asking rents up

The average capital city asking rent for houses in December 2018 was up 0.4 per cent to $555 p/w, according to SQM Research. In contrast, asking rents for units was down 0.5 per cent to $436 p/w. Across the capitals: Canberra $625 p/w for houses / $461 p/w for units; Sydney $708 / $506; Darwin $504 / $388; Brisbane $455 / $374; Adelaide $391 / $300; Hobart $426 / $350; Melbourne $534 / $406; and Perth $434 / $322.

Vacancies rise

According to SQM Research, the national residential vacancy rate for November 2018 rose to 2.3 per cent, up from 2.0 per cent in October. There were 74,590 vacant properties Australia-wide, with vacancies up across all capitals: Adelaide 1.2 per cent, up from 1.1 per cent; Perth 3.4 / 3.3; Melbourne 1.9 / 1.6; Brisbane 3.0 / 2.7; Canberra 0.9 / 0.6; Sydney 3.2 / 2.8; Darwin 4.0 / 3.8; and Hobart 0.4 / 0.3.

Investor finance down

Figures from the ABS revealed the total value of investment housing commitments decreased by $101 million, or 1.0 per cent (trend terms), in October 2018 compared with September. Falls were recorded in commitments for the purchase of dwellings by individuals for rent or resale (down $56m, 0.7 per cent), commitments for the construction of dwellings for rent or resale (down $29m, 3.1 per cent) and commitments for the purchase of dwellings by others for rent or resale (down $16m, 2.1 per cent). REIA noted that “the dollar amount approved for the purchase of dwellings by individuals for rent or resale is at the lowest level since June 2013”. ABS figures also showed investment housing loan outstandings financed by ADIs was flat at $566 billion at the end of October.

Investor refinancing rejections rise

Data from Digital Finance Analytics revealed more than 49 per cent of those seeking to refinance in November had difficulty. Around 27 per cent of investors had their refinancing loans rejected.

Investor loan share continues decline

APRA’s quarterly property exposures statistics for the September 18 quarter revealed the share of loans for property investment, relative to all loans, had fallen. The major banks held around 35 per cent of their portfolios in investor lending, the percentage held with foreign banks and mutuals also declined. Mutuals also held less than 10 per cent of interest only stocks, while the major banks held 20 per cent (down from 30 per cent in 2015). The proportion of new IO loans sat at around 10 per cent, with major banks writing the major proportion at around 16 per cent (down from more than 40 per cent in 2015).

Mixed rental conditions recorded

Australia-wide, rents rose 0.7 per cent in November 2018, according to *CoreLogic’s Hedonic Home Value Index*. Rents were up 0.4 per cent across the capitals and up 2 per cent in regional areas. Darwin had the weakest rental conditions, with rents down 5.1 per cent (compared with the same time the previous year), followed by Sydney’s 2.7 per cent fall. The largest gains were in Canberra where rents rose 6.9 per cent and in Hobart by 6.1 per cent. The data indicated dwelling rents were outperforming rental values.

Dwelling values decline
CoreLogic's *Hedonic Home Value Index* revealed dwelling values declined 0.7 per cent in November 2018, and were down 4.2 per cent since peaking in October 2017 – the largest decline since the GFC. Declines were experienced in Sydney (-1.4 per cent) and Melbourne (-1.0 per cent), while dwelling values were higher in five of the eight capital cities.

Rental affordability rises
Rental affordability improved in every state and territory, except Victoria and Tasmania, in the September 18 quarter, according to the *Adelaide Bank/REIA Affordability Report*. The proportion of income required to meet rent payments dropped 0.2 per cent to 23.9 per cent of income required to meet median rents. The NT recorded the biggest decline, dropping 2.6 per cent to 18.4 per cent. NSW and Queensland both declined 03 per cent, to 28.5 per cent and 21.9 per cent respectively. WA (16.1 per cent), SA (21.8 per cent) and the ACT (18.4 per cent) all declined 0.2 per cent. Tasmania recorded the largest increase at 0.7 per cent, to sit at 28.3 per cent and Victoria recorded a 0.1 per cent rise to 23.4 per cent.

New home sales decline
The *HIA New Home Sales* report indicated the number of sales during the three months to October 2018 was down by 10 per cent compared with the same time the previous year. Private detached house sales in October increased by 4.9 per cent in Victoria and by 2.5 per cent in Queensland. New house sales declined in all other mainland states, with sales down by 4.9 per cent in NSW, 5.6 per cent in SA, and 10.7 per cent in WA.

New home approvals fall
Data from the ABS revealed there was a decline of 1.5 per cent in new home approvals across Australia in October 2018, equating to a seasonally adjusted 17,070 homes – representing a drop of 13.2 per cent compared to the same time the previous year. SA experienced the biggest dwelling approval drop with a seasonally adjusted decline of 17 per cent, followed by Tasmania down 3 per cent, Victoria (-2.6 per cent), Queensland (-1.1 per cent), NSW (-0.5 per cent), and WA (-0.1 per cent). Total dwelling approvals (trend terms) slumped in the NT by 12.5 per cent, but rose by 0.8 per cent in the ACT. Approvals for multi-unit homes dropped 5.4 per cent, while detached house approvals rose 1.7 per cent.

Housing affordability improves
The *Adelaide Bank/REIA Affordability Report* showed that housing affordability improved in every state and territory expect Queensland (where it remained stable at 28.1 per cent) in the September 18 quarter. NSW saw the best improvement in affordability, with the proportion of income required to meet loan repayments dropping 1.5 per cent to 36.6 per cent. WA came in second with a decrease of 1.2 per cent to 22.7 per cent, then the ACT dropping 0.9 per cent to 20 per cent. Drops of 0.5 per cent were recorded in Victoria and the NT, to 33.8 per cent and 21 per cent respectively. SA and Tasmania recorded decreases of 0.3 per cent, to 26.7 per cent and 25.1 per cent respectively.

Resi property prices decline
According to the ABS's *Residential Property Price Index*, the price index for residential properties for the weighted average of the eight capital cities fell 1.5 per cent in the September 18 quarter and fell 1.9 per cent through the year. The capital city residential property price indexes fell in Melbourne (-2.6 per cent), Sydney (-1.9), Perth (-0.6) and Darwin (-0.9), and rose in Brisbane (+0.6), Adelaide (+0.6), Hobart (+1.3) and Canberra (+0.5). Annually, residential property prices fell in Sydney (-4.4 per cent), Darwin (-4.4), Melbourne (-1.5), Perth (-0.5) and rose in Hobart (+13.0), Canberra (+3.7), Adelaide (+2.0) and Brisbane (+1.7).

House prices see largest price drop in 7 years
REIA's *Real Estate Market Facts* for the September 18 quarter revealed weighted average median prices declined by 1.6 per cent for houses and 0.8 per cent for other dwellings, which is their largest decline in the last year. REIA also noted house prices have seen their largest drop since December 2011. The weighted average median price for houses across all capital cities declined to $751,411 over the quarter, representing a decline in all capital cities except for Brisbane, Adelaide and Melbourne (which held steady). The weighted average median price for other dwellings declined to $587,959 over the quarter, representing a decline in all capital cities except for Melbourne and Canberra.

Negative equity on the rise
APRA's Property Exposures figures showed banks wrote nearly 26,000 new mortgages with an LVR of more than 90 per cent and a further 51,000 with an LVR of between 80 and 90 per cent – this represents 20 per cent of all loans written in the June 18 quarter. A survey by Roy Morgan in November also found 8.9 per cent of borrowers (up from 8 per cent 12 months previous) were slipping into negative equity. Digital Finance Analytics' modelling concluded 400,000 households (or around 10 per cent of properties) – both owner-occupiers and investors – are in negative equity.

News in brief

APRA removes cap on IO loans

From 1 January, the 30 per cent cap on banks and other lenders offering IO loans ceased to be in effect. APRA also removed the 10 per cent growth cap on investor lending. The cap on IO loans made a noticeable impact on the investor market in 2018. According to CoreLogic's *Property Pulse* report, in the 12 months to September 2018 housing credit grew by just 5.2 per cent, the slowest increase since November 2013. IO mortgages made up only 28.8 per cent of total credit by June 2018. Investors also accounted for 33.1 per cent of total credit, the smallest share since June 2012.

Foreign investor tax scrapped

As part of the Federal Government's mid-year economic and fiscal outlook, the plan to tax foreign investment in the student accommodation sector was axed. The concessional rate of 15 per cent for foreign investors into the residential and agricultural sectors has been doubled. Initially, the intention was to include student accommodation under the increased 30 per cent rate but this has been revised.

Mortgage stress rises

Digital Finance Analytics' data revealed mortgage stress rose in November 2018, with 30.9 per cent of owner-occupiers (1,015,600 households) in stress, with a further 22,500 in severe stress and 61,000 households at risk of 30-day default in the next 12 months. NSW had 281,275 households in stress (272,536 in October), Vic had 283,395 (281,922), Qld had 181,156 (178,015) and WA had 132,135 (132,827). The probability of default over the next 12 months rose: with around 11,560 in WA, around 11,300 in Qld, 15,300 in Vic and 16,200 in NSW.

ATO forces sale of properties

Between 2015 and 2018, the Australian Government forced the sale of 316 properties, valued at $381 million, which were owned illegally by foreign nationals. The majority were in Victoria (144 properties valued at $162.67m), NSW (73 / $131.69m), Queensland (64 / $36.86m) and WA (30 / $47.6m). Since 2015, the ATO has issued more than 1,500 notices to foreigners who have not obtained FIRB approval before purchasing property and/or have breached a condition of previously approved applications.

Mortgage competition stifled

The ACCC's Residential Mortgage Price Inquiry has found the unnecessarily high search costs or effort required by borrowers to find better prices reduces their willingness to shop around, but that many borrowers who negotiate with their bank can get a much better price. The report noted that the opaque, discretionary pricing of residential mortgages by banks makes it difficult and time-consuming for borrowers to shop around and stifled price competition. As at 30 June 2018, an existing borrower with an average-sized mortgage could initially save up to $850 a year in interest if they negotiated to pay the same interest rate as the average new borrower at the five banks (ANZ, CBA, NAB, Westpac and Macquarie Bank) under review.

Tenants with disability more likely to be evicted

A report by Choice, National Shelter and the National Association of Tenant Organisations found renters with disability faced a range of barriers that prevented them getting into or staying securely in rental accommodation. This included difficulties getting timely repairs, facing additional expenses when moving in and out, and people with disability were also almost 2.5 times more likely to experience issues with home inspections from their landlord than other renters. The survey also revealed 16 per cent of people with disability have been served with a no-grounds eviction, compared with 9 per cent of other renters.

Build-to-rent model launches
Kanebridge Property Group has launched a build-to-rent model across three of its developments in Greater Sydney. Based on models in operation in the US and Europe, the concept provides affordable modern housing for those unable to purchase a property of their own and after three years tenants will qualify for finance to enable them to buy an apartment if they want to.

1 in 3 first homebuyers are 'rentvesters'
PIPA's *2018 Investor Sentiment Survey* revealed 36 per cent of first homebuyers were looking to invest in property rather than purchase a home for themselves. The survey also found 83 per cent of first-time buyers were purchasing established property, despite grants being available to purchase new dwellings.

ATO catching out dodgy property claims
The ATO's data-matching program enables the agency to automatically scan and analyse publicly available data as well as data from third parties like banks, financial institutions and both state and federal regulators to help identify taxpayers doing the wrong thing. As part of the program, the ATO has access to rental bond data and has caught out operators who are claiming expenses for properties they don't own, or that don't exist.

SMSFs left exposed
ASIC's latest report into member's experiences found that more than 60 per cent of SMSFs have no proper arrangement in place for the control of their SMSF in the event of incapacity – including death, dementia or divorce. Out of the 457 funds surveyed, 30 per cent said they had no existing arrangement, 25 per cent of members said they had an existing arrangement with their financial adviser to take over the running of the SMSF, and 16 per cent said they had already outsourced most of the running of their SMSF. Of particular concern to the SMSF Association was the perception that the responsibility of the SMSF would be outsourced to a financial adviser if incapacity should occur, and members' misconceptions about their legal responsibilities, including the need to allocate an individual(s) to take over the running of the SMSF, needs to be addressed.

AMP predicts 20% fall in housing prices
AMP Capital expects house prices in Sydney and Melbourne to decline 20 per cent by 2020. Their chief economist noted that the decline in prices is being driven by tighter credit conditions, poor affordability, rising unit supply, reduced foreign demand, the switch from IO to P&I mortgages for a significant number of borrowers, fears that negative gearing and capital gains tax concessions will be made less favourable if there is a change in government, falling price growth and "FOMO (fear of missing out) risking turning into FONGO (fear of not getting out) for investors". Weak auction clearance rates and auction sales volumes in the two capitals were also cited as factors, along with Comprehensive Credit Reporting kicking in, making it harder to get multiple mortgages.

Airbnb to build homes
Airbnb has announced they will begin building their own prototype homes this year. Through the Backyard project, the short-term letting platform will "endeavour to design and prototype new ways of building and sharing homes". As yet, Airbnb hasn't confirmed exactly what Backyard will build, but it is expected that it will be units aimed at short-term leasing and the rental market which will be adaptable to each occupant.

Tech watch: latest apps and platforms

Realestate.com.au has added Agent Ratings and Reviews to its site. The reviews service is free of charge and all reviews are vetted by the website to ensure they are from real clients who have purchased or sold a property in the past 12 months. The website's 1form has also introduced Tenant Verification where the tenant can instantly purchase a report to verify both their identity and credit worthiness in minutes.

Legal corner: Former agent jailed for fraud

A former director and licensee-in-charge of NSW-based CLB Property Group Pty Ltd was found guilty of misusing more than $124,000 that was supposed to be held in trust after the sale of two homes. Christopher Black was sentenced to 18 months imprisonment after pleading guilty to fraudulently appropriating the money from the trust account for personal use and to also failing to keep deposits for another two properties, worth more than $158,000, in a trust account.

CBA: borrowers should pay mortgage broker fee

CBA's chief executive told the Hayne Royal Commission that mortgage borrowers should pay a fee to a broker for their service rather than the broker being paid a commission by the lender. Broker-originated loans account for around 55 per cent of all mortgages, with growth in this channel credited with driving competition in the mortgage market.