# The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

## Welcome

I am starting to think that someone has hit the fast-forward button on this year. It feels like only yesterday I was packing away the Christmas decorations, and now it's the start of autumn!

And speaking of autumn, as the weather starts to cool and tenants start to warm their homes it's prime time for mould growth. Mould is basically inevitable, but damage from mould can be prevented – and that's why mould damage is a standard exclusion in insurance policies. In this edition we look at the common causes of mould and offer a few ways to reduce the risk of both landlords and tenants having to foot the bill for repairs.

We also explore ways to tap into the housing needs of Generation Rent and give a run-down on interiors trends for winter 2019 so you are armed with the latest ideas if your rental is getting a seasonal revamp.

Women are playing an ever-increasing role in the property industry. Less than a decade ago, just 13 per cent of women owned an investment property, today more than 15 per cent do. Some 47 per cent of property investors are female and, according to an analysis of data from the ATO by the Property Council of Australia, outperformed their male counterparts in 2016 by 40 basis points – and have done so consistently for the past decade. When it comes to real estate, women dominate the industry – accounting for 57 per cent of the total workforce. Women are also more likely to work in property management too. Census 2016 data revealed the average RE professional is a 38-year-old married female working in a city and earning about $58,468 p.a. (whereas her male colleagues earn an average of $73,828). Financial independence and security are key considerations for women and, in recognition of International Women's Day (8 March), EBM Financial Planning has provided some great tips to help women take charge of their financial future and bridge the gender super gap.

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

**Sharon Fox-Slater**
Managing Director, RentCover

## It's the end of homeownership, and I feel fine


**For many Millennials, the prospect of not owning a home of their own is one that doesn't faze them. In fact, new research shows many are happy to rent forever. This is good news for property investors, so just how do you tap into the needs of Generation Rent?**

The Great Australian Dream of homeownership is not necessarily dead, but it's an aspiration that many younger people are happy to forgo. Renting for life is commonplace in many countries, particularly in European, American and Asian cities, and it's a prospect that no longer fills Aussie Millennials with a sense of dread.

*The 2019 Renters' Report*, a partnership between realestate.com.au and Pedestrian TV, explored the attitudes, behaviours and concerns that young Aussie renters (aged 18 to 39) experience around the country. Based on the results of the survey, it was found the average renter is predominantly female, aged 25-29, with an annual income of $50,000. They mainly live in Sydney (32.8 per cent) and Melbourne (31.1 per cent).

A key finding revealed that while the majority hoped to eventually own their own home, 20 per cent of Generation Y (those born between 1981 and 1996) would happily rent forever.

While Generation Rent had a number of concerns – including competition being the toughest part of the rental process according to 41 per cent, given more than 30 per cent had been knocked back from more than three properties before finding a rental – paying high rents wasn't one of them.

### It's worth it

Despite more than 40 per cent of Millennials being in rental stress (defined by the ABS as a situation where the housing costs are more than 30 per cent of the gross household income), the survey found the majority who were in rental stress either didn't know or didn't care. Around 72 per cent said they felt the price they paid was fair and they would never question the figure. And just one-third (33.1 per cent) felt that price was the determining factor about where they chose to rent.

### Location, location, location

In fact, the main consideration is location. Young renters were more than happy to pay high prices for rentals in desirable locations. More than half (51.7 per cent) of Millennials believed location was the most important consideration when choosing a rental property. The majority were prepared to trade both the quality and style of rental for a desirable postcode. They were also prepared to sacrifice personal space to keep costs down and live in their preferred location and property – with 30.9 per cent living with three to four housemates.

### GenY-buy?

The survey results are great news for landlords who will see demand for rentals continue well into the future. This goes for those with city and fringe apartments/units popular with young singles and also for those with homes in the suburbs as the older Millennial cohorts are now in their late 20s-late 30s and moving into the next phase of life – getting married (research from Goldman Sachs indicates the average marrying age for Millennials is 30-years-old) and having families. With many Millennials also tipped to become 'retiree renters', the need for a diverse mix of rentals will also continue as the cohort ages. A survey by loan comparison site Lendi showed 56 per cent of18 to 34-year-olds did not believe they would ever own a property outright and a further survey by finder.com.au showed 47 per cent of renters would consider renting for life if home prices continued to increase.

**What Millennials want**
Generation Y comprise some 40 per cent of the total renting population. Millennials have grown up in a time of rapid change, giving them a set of priorities, expectations and behaviours quite different to previous generations. And this is reflected in what they find desirable in rental accommodation. Provide them with the things they expect in their accommodation and you'll not only have happy tenants but increase your chances of receiving sound returns on your investment.

Location is the biggest thing for Millennial tenants – close to work, to family, to dining and entertainment, to public transport, to green spaces, to shopping and, for those with children, to parks, schools, medical facilities etc. So if your rental boasts these features, make sure you highlight it in your marketing. Even if your property isn't as ideal in terms of location and amenities, there are things you can do to make your existing rental more appealing to Gen Y tenants:

- **Technology**
  Having grown up in the age of the internet and social media, Millennials rely heavily on gadgets, technology and the latest appliances to make their lives easier and stay connected. For many, 'essentials' include a high speed internet connection and Wi-Fi, cable TV, the latest appliances and energy-saving devices. All that tech needs power, so make sure there are plenty of outlets (preferably with USB plug-ins) in all rooms.

  Tech tip: Given Millennials are always online (often mobile) – they find all the info they need online whether it's through social media, websites or online directories – you should make sure you target online channels in your marketing. It's also a good idea to have everything logistics-related (e.g. paying rent, requesting repairs) online.

- **Enviro-features**
  According to the World Economic Forum, 63 per cent of young Aussies identify climate change as the most serious issue facing Australia. So decking out the rental with eco-friendly features, like water-saving shower heads, energy-efficient appliances, insulation, a bike locker etc., is likely to bode well with prospective tenants.

- **Social spaces**
  Connecting with friends is important, so homes with social spaces (living room, alfresco area) are popular (make sure there are entertaining spaces at the property). Properties close to restaurants, bars and coffee shops are also sought-after (so highlight in your marketing).

- **Security**
  For many, renting will be the first time they have lived away from their parent's home, so they expect to feel as safe and secure in their rental as they did back home. Rentals with good security can help alleviate safety concerns, so ensure measures like excellent locks, security lighting, alarm systems etc. are in place.

  Smart tip: 'Smart' security features – smart locks, keyless entry, smart alarm systems, video doorbells, smart lights and motion sensors, smart CCTV, smart smoke detectors, internet-connected floodlight systems that communicate with smart phones etc. – combine the need for security and a connected lifestyle. If you install smart devices and appliances, most of which rely on wireless service, have a book of instructions at the premises indicating how tenants can program/connect them with their chosen internet and Wi-Fi service.

- **Pets**
  More and more Millennials own dogs and cats, so living in a pet-friendly rental is a must. Go pets-allowed and make sure the property is suitable for furry family members.

  Although pet damage is rare, landlords have the security of knowing that their RentCover policy provides up to $65,000 in pet damage cover.

- **Longer leases**
  With many set to rent long-term or even for life, the security of having longer leases may appeal. While some may enjoy the 'freedom' that comes with shorter leases, others will appreciate the stability and connection to community that is offered with a longer tenure.

**Protecting what's important**
Millennials might favour 'experiences' over possessions, but many will still have accumulated a significant number of personal effects – often with high values attached (smart phones, laptops, gaming consoles, sound systems, cameras designer clothing and accessories, watches and jewellery etc.). Making renter's insurance a smart choice. TenantCover provides protection for contents against theft, or damage by fire, explosion, storm and flood to a total of $25,000. In addition, legal liability for incidents in which someone injures themselves on the property or suffers another loss (where the tenant is found liable) is covered up to $10M. Renters with more extensive contents (i.e. in excess of $25K) or who need cover for high-value items or specialty cover, can contact EBM about Contents options.

## Not such a fun-guy

**As the cooler weather arrives, so does the increased risk of mould in rentals. While the fungi may be small, they can cause big problems. And as damage caused by mould is not covered by landlord insurance, it's best to nip it in the spore before it spreads.**

Steaming hot showers. Tumbling clothes in the drier. Warming soups and stews blipping away on the stove. Every door and window closed with draught stoppers to keep the warmth in. Subdued lighting to create a cosy atmosphere. Thermostats heading northwards. The arrival of the cooler weather often means tenants go into hibernation, but it also creates a perfect storm for mould growth (of course mould is a perennial problem in the tropics/humid parts of the country).

Moisture, heat, dark and a lack of air flow are the BFFs of mould and mildew.

The mould growing on old fruit and veg in the crisper, or multiplying on the bread, is not the same beast as the mould/mildew that can be found on walls, ceilings, and other hard and soft surfaces in homes.

This fungal growth can pose health risks for occupants. When mould dries out or is disturbed, it releases spores which can cause illness in some people or exacerbate existing health issues like asthma, respiratory infections, sinus problems, rashes and watery itchy eyes.

In addition to ill-health, mould can also cause odours and damage to building materials, contents and structures. If left untreated, mould can grow into plaster, ceiling cavities, behind walls, in and behind gyprock and under carpets and floorboards – potentially causing structural damage. This can lead to expensive maintenance, replacement or management costs such as professional cleaning.

The cause of mould and mildew in a rental could stem from maintenance issues or from the action or inaction of tenants – which means fixing the problem could rest with either landlord (and their agent) or with the tenants.

Mould caused by structural issues is the responsibility of landlords and their agents to remedy. Mould could result from:

- a leak in the roof
- cracked roof tiles
- a faulty pipe
- malfunctioning gutters causing overflow into the property
- surface water leaking into the building
- wet building foundations such as rising damp
- indoor plumbing leaks
- lack of ventilation in roof cavities or under the floor

Landlords are required to keep the property in a reasonable state of repair, meet building, health and safety requirements, and ensure all repairs are undertaken within a reasonable timeframe. They could be in breach of the tenancy agreement if they don't fulfil these obligations, for example failing to get plumbing issues fixed, not repairing a leaky roof or not fixing broken exhaust fans etc.

A tenant may be able to seek compensation from the landlord if mould damages their personal property and the landlord has failed to take reasonable steps.

*An ounce of prevention:* Agents should keep an eye out for potential problems during inspections and encourage tenants to immediately report any dampness, windows that don't close properly or leaks. Agents should then ensure landlords remedy the issue promptly. They should also schedule routine maintenance (such as cleaning out gutters) and be ready to address any issues as they arise (e.g. have contact details for mycologists to determine the cause of mould and specialist mould cleaners – and of course know the rights and responsibilities of all parties when it comes to remediation).

On the other hand, a tenant could be responsible for cleaning up outbreaks if their actions resulted in the mould forming. For example:

- showering without switching on the exhaust fan or opening a window
- leaving pools of water on tiles
- cooking without engaging the extractor fan or rangehood
- using a clothes drier without adequate ventilation or drying clothes indoors and then not airing the room afterwards
- using un-flued heaters, which can release water vapour into the air
- failing to properly clean up indoor liquid spills
- getting the carpet wet and neglecting to properly dry it out
- neglecting to wipe condensation from walls or windows
- storing large volumes of water-absorbent materials such as books or cardboard boxes in a damp space
- not cleaning the home properly
- leaving windows or doors open during rain

Tenants are responsible for keeping the rental property in a reasonable state of cleanliness, not intentionally or negligently causing or permitting damage, and informing landlord or agent of any damage as soon as possible. If the tenant has caused the underlying problem that led to mould developing, or hasn't informed their landlord or agent of an issue with the property, they could be held responsible for mould damage and may have to compensate their landlord.

*An ounce of prevention:* Agents should remind tenants of the need to adequately ventilate the property – air the home by opening doors and windows, use exhaust fans in bathrooms, open a window when the clothes drier is on, use the extractor fan over the stove etc.

If the premises or contents are damaged as a result of mould, the affected party (landlord or tenant) can seek compensation from the responsible party. While the responsible party may be at fault of causing the damage, the affected party must make every reasonable effort to mitigate their own losses (e.g. a tenant should remove clothes from a wardrobe where there is mould growing; a landlord should attend to any reports of dampness promptly).

However, neither landlord nor tenant can claim for damage caused by mould on their insurance. Damage caused by mould/mildew/fungus/algae is a standard exclusion in most building and contents insurance policies in Australia.

Why? For two reasons. Firstly because mould growth is frequently unavoidable. And secondly, because it usually doesn't cause any damage if it is taken care of quickly (i.e. damage is preventable).

Cover is usually not provided even if the mould is the result of an insured event. For example, if a pipe bursts and floods a room, cover for the damage, such as destroyed carpet, resulting from that leak is likely to be covered under ‘escape of liquid’ provisions. But if that leak causes mould growth, then the policyholder may not be covered for the removal or cleaning of the carpet, or any damage that can be attributed directly to the mould rather than the burst pipe.

Although a home can fall prey to the dreaded mould spores at any time of the year, the arrival of cooler weather is a prime time for breeding. Get on top of any mould issues before they become expensive problems – as the cost of damage caused by mould and mildew will rest solely on the shoulders of the party who was responsible for its presence. Claiming for mould damage or for mould cleaning/removal on landlords’ or renters’ insurance is generally not an option.

## Purple is the new inky blue

**Autumn is a popular time to prepare properties for the cooler climes. If a seasonal revamp is on the cards at your rental, these are the trends to know (and some to avoid).**

Memories of autumn can be very evocative – the sound of fallen leaves crunching underfoot… the cleansing aroma of fresh rain... the feeling of a soft scarf being wrapped around the neck… the sound of power tools… the smell of fresh paint.. It's not only the season for a change in weather, but also high season for home, property and reno shows on the telly and a plethora of home and garden shows taking place around the country inspiring property investors to spruce up their rentals.

It's also a time when some landlords will switch their rental from one type of lease to another, i.e. from a short-term lease to a fixed term or vice versa, depending on the type of demand for their property at this time of year. NOTE: A change in tenancy requires a change in the type of landlord insurance cover over the property. Talk to us about making the switch.

Others still will take the opportunity to renovate the property when tradies can be more plentiful. BTW: If the rental is being renovated, you need to contact us to discuss cover options while the works take place.

If a seasonal revamp is on the cards, it's good to know what trends to consider and which to maybe not. Here's a rundown of what's trending this winter:

According to Houzz (as espoused in *Vogue Living*), these are the seven big trends for 2019:

1. Striking surface treatments – think decorating island benches or cladding rooms in patterned wallpaper
2. Pastel colours in the kitchen
3. Calm colours – chalky hues like mint and sage, and beige and tan
4. Statement vanities in the bathroom
5. Outdoors as indoors with indoor furniture as outdoor furniture
6. Smart and clever design – "alcoves turned into wine storage, under-stair areas becoming play spaces for children, display elements in disused areas, functional joinery built into narrow spaces and corners transformed into eye-catching studies"
7. The rise of the pod – especially clad in timber

Darren Palmer's hot tips:

1. Getting back to nature – Pantone's Colour of the Year Living Coral suits the theme perfectly and can be paired with beige neutrals, travertine and brass
2. Floral, botanical and palm print wallpapers
3. Green in every incarnation, especially eucalypt, sage, avocado and olive
4. Saturated mid-toned primary and secondary colours in homage to the 80s and 90s
5. "Pairing dominant and recessive colours to create focal points in a room, create an illusion of depth and space, or draw attention to statement pieces"
6. Custom-designed furniture to reflect lifestyles, "people are looking for an artisan, handmade, bespoke response to furnishings"

According to *Marie Claire*, 2019's most hashtag-able interior trends are:

1. Claret, rust and peachy tones. Peach, grey and brass are back without a hint of 80s stigma
2. Curves – think Morocco, archways are in
3. Greenery – cacti are taking over from fiddle-leaf figs
4. Celebrating heritage and context

Overview: "The latest trends are adventurous yet grounded with earthiness and tradition. Purple is the new inky blue. Millennial pink is getting both rustier and peachier. Shiny surfaces are out but matte lives on. And sharp lines are still cool but curves and arches are fast approaching."

*Elle*'s top interiors trends for 2019:

1. Organic shapes – "from sinuous sofas with soft bends to statement vases in irregular shapes"
2. Gold accents replacing matte and copper accents in tapware and lighting
3. Sustainable furniture and eco-friendly designs, furniture with purpose
4. Linear lights, look out for "translucent sculptured glass lights in bubble and fluting shapes" or "seek out sorbet-shaded lighting"
5. Clashing prints, contrasting prints and textures
6. "Pastel shades, pale greens, lemon yellows, light neutrals and apricot orange coming to life in tapestry, lighting, kitchen cabinetry and smaller fixtures like coat racks and stools"
7. Fun décor, minimalism is out

Overview: "As we move on from the functionality-focused trends of Scandi-mania, designers are mixing it up with brighter palettes and art-inspired elements leading the way."

And a few trends to ditch, according to My Domaine:

1. Skip oversize hardware, try minimal pulls
2. Skip Moroccan rugs, try Iranian rugs
3. Skip industrial lighting, try mid-century lanterns
4. Skip mid-century tables, try contemporary tables
5. Skip curved sofas, try 80s sofas
6. Skip brass furniture, try natural stone furniture
7. Skip subway tiles, try Zellige tiles
8. Skip fringe pillows, try wool wrap pillows
9. Skip terrazzo accents, try granite accents

Always on trend: If you update your rental, remember to check that the sum insured is still adequate and that any contents cover is sufficient!

## Super Woman: closing the gender super gap

**Financial independence and security holds particular relevance for women. In recognition of International Women's Day (8 March) and how good financial planning can help women achieve their life and wealth creation goals, these tips can help boost superannuation savings and close the gender super gap.**

For as long as women have been active in the workforce, they have faced financial inequality – from the 'gender pay gap', which sees women working full-time earning 18 per cent less than men (and female graduates earning $5,000 less than male graduates in the same role), to the 'super gap', which sees women currently retiring with 44 per cent less super than men. ABS data from 2017 shows the average super balance for women aged 55 to 64 is $180,000, but for men it's $322,000.[*]

Despite 65.3 per cent of the workforce being female, workplace practices and government incentives still favour men. Women only receive one-third of the government tax concessions on super and it is estimated 220,000 women miss out on $125 million of super contributions because many work more than one part-time job so they do not meet the requirement to earn $450 per month from one employer. This, coupled with the fact that more women take time out of the paid workforce to raise families or care for elderly relatives (on average five years), work part-time (43 per cent), are single in their sixties (in 2017, 17 per cent lived alone[†]), retire earlier (on average at the age of 60, compared to 67 for men) – not to mention live longer (on average five years longer than men) – means that many women head into retirement financially vulnerable.

Statistics from Women in Super reveal:

- the average female salary is $44,000 (including part-time workers)
- 44 per cent of women rely on their partner's income as the main source of funds for retirement
- 40 per cent of older single retired women live in poverty and experience economic insecurity in retirement
- 8.5 per cent of women aged between 65 and 74 still have a mortgage
- the 9.5 per cent Superannuation Guarantee does not enable most women to accrue sufficient savings for a comfortable retirement

But things are turning around. According to research by Roy Morgan, the proportion of women with superannuation has improved in the last decade. Today, 64.7 per cent of women hold assets in super compared to 57.4 per cent in 2008. The survey also indicated that the average balance for women has grown by 87 per cent, jumping from $68,000 in 2008 to $127,000 in 2018. The average balance for men also grew 53 per cent from $115,000 to $176,000.

The 'super gap' is being slowly eroded. The research found females aged between 50 and 59 made the biggest gains in the last decade (improving 15.2 percentage points), jumping from only 54.5 per cent of the male super average in 2008, to 69.7 per cent in 2018. Those aged 35 to 49 also bridged the gap by 14.2 percentage points to 75.4 per cent of the male average, while women aged 60-plus were up 9.8 percentage points to 72.1 per cent. Women aged 14 to 34 were closest to matching the male average at 85.6 per cent.

"Financial independence and security, especially when it comes to retirement, should be a priority," said EBM Financial Planning Managing Director Jay Manley.

"Enjoying a comfortable lifestyle‡ in retirement should be the reward for everyone who has worked hard all their lives. Despite the advances being made to close the gender pay and super gaps, many women will still head into retirement facing financial uncertainty.

"Having your financial future on a secure footing should be a key consideration for all, and investing in your super can be one way to help cement that foundation."

Jay suggests women should look at boosting their super by:

- starting early, don't leave retirement planning too late as the sooner you start the sooner you can build your balance
- making voluntary contributions
- using concessional or salary-sacrificing incentives to build your balance
- considering non-concessional or after-tax contributions also, as these are not subject to the 15 per cent contributions tax that can apply to other types of contributions
- seeing if you are eligible for a government co-contribution
- investigating whether the new super rules that came into effect in July 2018 which allow people to make catch-up tax-deductible contributions to super is applicable
- if you have a partner, seeing if they can make contributions to your super account on your behalf (spouse contribution or contribution splitting arrangements), they may be eligible to claim a tax offset
- looking into the aged pension (which remains the main source of income for almost three-quarters of retirees) and other government payments
- choosing your super account wisely, selecting one that best meets your needs
- selecting an investment protocol (e.g. balanced, cash, growth) that matches your risk profile and stage of life
- keeping track of your super to make sure your investment is working for you
- tracking down any lost super
- seeking guidance on consolidating super accounts
- contemplating continuing to work part-time in retirement

"Another key strategy for women looking to set themselves up financially is to engage the services of a qualified financial planner. A financial planner will take a holistic look at your financial life and help you develop strategies to reach your goals," said Jay.

Speak to an EBM Financial Planner about ways to boost your superannuation and other strategies to grow your wealth and live the lifestyle you want.

‡ ASFA defines a 'comfortable' retirement lifestyle as one which "enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel". As at the September 2018 quarter, for a single person aged around 65, they would need $43,200 a year to enjoy a comfortable lifestyle, a couple would need $60,843.

*According to the Association of Super Funds Australia (ASFA), super balances have grown to an average of $214,000 for those aged between 60 and 64 in 2016, with a median of $68,000. The 2017 HILDA survey found Australian women retired with an average super balance of $230,907 and men retire with about twice this amount.

*The Centre of Excellence in Population Ageing Research November 2018 research brief, *Retirement Income in Australia,* concluded single women will be less financially secure than other groups in retirement. A partnered female aged 65-69 will have almost $100,000 more in their super balance than a single woman the same age.

## Staff profile: James Patrikios

### A passion for leadership paves the way to RentCover

Starting small and working his way up never fazed James Patrikios and now he's at the top of his game in a senior role with RentCover.

James started on the phones at Westpac and quickly made his way through the ranks to take up sales team leadership roles, contact centre operational roles and then a project management position – all within the space of just six years.

That adaptability and drive stood him in good stead as he took up the role of National Client Services Manager with our team in September 2018 – and then became National Expert Care Manager when our client services and claims teams merged two months later.

"With leadership being my passion, moving into the role with RentCover was a slight change from the last role I had at Westpac, but not too difficult a transition considering my past," said James.

Heading up the newly-established Centre of Expert Care, James manages a staff of around 40 people, with the support of three team leaders (two in Melbourne and one in Perth). He wants to inspire leadership qualities among his team, leading by example and modelling behaviours and providing insights that enhance team development.

"Over the past six months, a lot of my time has been spent improving processes and operationalising functions within the team with the aim of creating more capacity for our people," said James.

"I also put into practice EBM RentCover's purpose and values because they are real and genuinely help to increase engagement and customer satisfaction."

Our purpose and values infiltrate every aspect of our business and this is something James connected with immediately.

"I was insanely picky about where I would work after departing from Westpac, and to be frank, I wanted to be. I wanted to choose a company that held the right values and delivered upon those values daily," recalled James.

"I was drawn to how supportive everyone's attitudes were during my interview. I could very much feel their 'one team' mentality and I knew that would filter throughout the company. So when the job was offered the decision was easy."

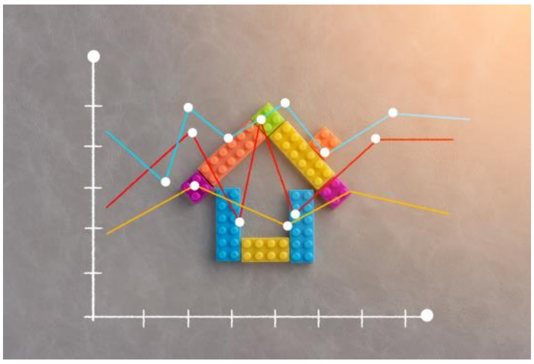
Citing our competitiveness, our people and our service as some of the many reasons why clients choose RentCover, James is quick to point out the reason clients stay with us is "because we care".

Asked what he enjoys most about his job and working with EBM he replied without hesitation: "Simple… the people".

And amongst those people it is pretty well known that James is a big fan of the gym – "lifting weights helps me to relax, as crazy as that sounds" – and he was into competitive power lifting when he was younger but that ambition was curtailed by an injury.

But what his colleagues don't know, is that James is also a big Michael Jackson fan: "Nothing crazy, but I have a few collectables that may have doubled or tripled in price". No doubt everyone in our Melbourne office will now be watching to see if James has Jacko's moves too next time one of the gloved-one's tunes is on the radio!

## Investment Property Market Snapshot



**Latest industry statistics and analysis.**

**Asking rents up**

In February, capital city asking rents rose 0.2 per cent to $560 p/w for houses and rose 0.7 per cent to $442 p/w for units, according to SQM Research. Across the capitals: Canberra $644 p/w houses / $460 p/w units; Sydney $710 / $510; Darwin $504 / $384; Brisbane $457 / $374; Adelaide $392 / $299; Hobart $418 / $357; Melbourne $543 / $417; and Perth $440 / $328.

**Vacancies decline**

SQM Research showed the national vacancy rate declined 0.3 per cent to 2.2 per cent in January. The total number of vacancies Australia-wide declined to 72,574, down 9,984 on December. Darwin had the highest vacancy rate at 3.8 per cent (down 0.5 per cent), followed by Sydney at 3.2 per cent (down 0.2 per cent), Perth at 3.0 per cent (down 0.4 per cent), Brisbane at 2.7 per cent (down 0.5 per cent), Melbourne at 1.9 per cent (down 0.3 per cent), Adelaide at 1.1 per cent (down 0.2 per cent) and Canberra at 0.9 per cent (down 0.4 per cent). Hobart was the only capital to record a rise in vacancies, up 0.1 per cent to 0.5 per cent.

**Rental yields at 3-year high**

According to the CoreLogic's home value index for January 2019, the national gross rental yield is 4.01 per cent. While rents were up just 0.4 per cent over the 12 months to the end of January 2019, the 5.6 per cent decline in dwelling values pushed gross rental yields above 4 per cent for the first time since May 2016.

**Values down**

National dwelling values declined by 1 per cent in January, according to CoreLogic's hedonic home value index. Every capital, apart from Canberra, recorded a month-on-month fall in dwelling values, while the weakest conditions were in Sydney (-4.5 per cent) and Melbourne (-4 per cent). The report noted regional markets were generally showing healthier conditions relative to the capitals. The combined regional index was down 0.6 per cent over the three months ending January while the combined capitals index was down 3.3 per cent over the same period.

**Investor lending falls**

Investment lending declined 1.6 per cent (down $125 million) from November to December 2018, according to ABS data. The share of investment loan flows for residential property was 28.5 per cent of housing flows. New investment loan flows fell 3.4 per cent and refinanced investor loans were down 21.3 per cent. Credit flows for investor purposes across the states over the last 12 months: NSW -25 per cent, Vic -21.5 per cent, SA -14 per cent, WA -12 per cent, Tas -24 per cent, NT -4.7 per cent, and ACT -37 per cent. The number of first time property investor buyers also dropped.

**Rental sentiment up**

According to NAB's *Residential Property Survey Q4-2018*, rental sentiment saw a slight increase over the quarter, rising by 1 per cent as rental yield was predicted to increase. NSW was the only state to predict rental markets to decline by 0.1 per cent, while rents are expected to grow by 1 per cent in Victoria, 2 per cent in Queensland, 1.9 per cent in WA and in the combined markets of SA and the NT by only 0.1 per cent. In contrast, property sentiment was at a survey low, dropping 11 points to -20 for the last quarter of 2018.

**House prices decline**
Only Adelaide and Hobart recorded house price increases in 2018, according to the *Domain House Price Report* for the December 2018 quarter. It was also found units were performing better than houses. Across the capitals: Adelaide (+1.7 per cent over the year to $537,971 for houses and up 0.7 per cent to $321,430 for units), Hobart (+8.8 to $479,685 / -3.5 to $342,796), Sydney (-9.9 to $1,062,619 / -5.8 to $702,012), Melbourne (-8.4 to $833,321 / -4.3 to $479,306), Brisbane (-0.1 to $566,058 / -7.9 to $369,882), Canberra (flat to $738,933 / -6.1 to $412,718), Perth (-3.3 to $546,281 / -2.9 to $351,818), Darwin (-8.7 to $514,876 / -13 to $321,990).

**Listings decline**
SQM Research found national residential listings declined 0.03 per cent in January 2019 to 328,089 from 328,203 in December 2018. Sydney and Melbourne listings were down 2.3 per cent, while Canberra dropped 2 per cent. All other capitals were up marginally, with Hobart recording the largest increase at 1.4 per cent.

**New builds decline**
Figures from the ABS revealed building approvals declined by 8.6 per cent over December to 13,995 properties. The largest decline (seasonally adjusted) was recorded in Tasmania (-24.3 per cent), followed by NSW (-8.6 per cent), Victoria (-8.1 per cent) and Queensland (-5.8 per cent). Dwelling approvals rose in SA (+5.6 per cent) and WA (+1.1 per cent). In trend terms, the NT saw a rise in approvals of 1.7 per cent, while the ACT saw a decline of 21.3 per cent. The HIA noted that its research had found that the time taken to gain approval for a loan to build a new home had blown out from around two weeks to more than two months.

**Less competition for investors**
PRDnationwide’s Q1 *2019 Key Market Indicators* report showed the number of first homebuyer loans declined 3.7 per cent over the last 12 months up to the September 2018 quarter. However, the home affordability index rose by 2.6 per cent to 31.9 index points over the past 12 months, meaning properties were becoming more affordable. Coupled with this is the fact that rental transactions increased, which, the report noted, means in markets where there are softer prices and increased rental activity, there are good opportunities for property investors.

**Mortgage stress at record high**
Digital Finance Analytics’ January mortgage stress and default analysis update revealed the housing debt ratio had continued to climb to a new record of 139.6 (based on RBA figures), with 31 per cent of owner-occupier borrowing households now in mortgage stress.

**Chinese residential investment wanes**
The 2017-18 annual report of the FIRB revealed for the first time since FY13, the US surpassed China as the largest source country for foreign investment, with an increase in approved investment from $26.5 billion in FY17 to $36.5 billion in FY18. China was the second largest source country, with approved proposed investment decreasing to $23.7 billion in FY18 from $38.9 billion in FY17. By approval numbers, 91 per cent of all approvals were for proposed investment in residential real estate worth $12.5 billion (down from $17.5 billion in FY17).

**Mortgage delinquencies rising**
S&P Rating’s SPIN to December 2018 (an assessment of the risks in Australian Residential Backed Mortgage Securitisation Pools), showed there was an overall rise in mortgage delinquencies (to sit at 1.38 per cent), with the exception being Tasmania. Defaults: WA (+0.10 per cent to 2.73 per cent), NT (+0.36 to 2.77), SA (+0.06 to 1.5), Qld (+0.08 to 1.73), NSW (+0.07 to 1.13), ACT (+0.04 to 1.03), Vic (+0.03 to 1.23) and Tas (-0.04 to 1.12).

## News in brief

### Hayne Royal Commission: impact on property investors

Last month the findings and recommendations of the Hayne Royal Commission into banking and financial services were released. The Government has indicated it is considering implementing the 76 recommendations. Key recommendations that may impact the property investment industry include proposed changes to the way mortgage brokers operate and are remunerated. Mortgage brokers will have a 'best interests' duty placed on them. In addition to a ban on trailing commissions and volume-based bonuses on new loans, the Government will look to review a borrower-pays remuneration structure (move from a commission-based structure to a fee-based one). On a positive note, there were no recommendations for further tightening of lending credit, as the existing measures had had the intended effect.

### WA domestic violence legislation passes

The WA State Government has passed the *Residential Tenancies Act (Family Violence) Amendment Bill 2018*. Under the new bill, victims of domestic violence will be allowed to terminate their tenancies immediately and without penalty. Measures to safeguard landlords from the legislation being used without just cause has been included in the bill.

### Mortgage brokers launch campaign

Following a recommendation from the Hayne Royal Commission that mortgage broker commissions be abolished in favour a fee-for-service structure (with the borrower paying the fee instead of the bank paying the broker a commission), the Mortgage and Finance Association of Australia, which represents more than 13,500 brokers, launched an ad campaign against the sweeping changes to the industry's revenue model. The "Don't Kill Competition" campaign aims to highlight the role that brokers play in driving competition, choice and access to credit.

### ATO crackdown on SMSFs

The ATO will be writing to investors with self-managed super funds who have persistently missed the annual lodgement requirements. While the tax office appreciated that there are sometimes legitimate reasons for not meeting obligations, it is also concerned that many taxpayers are using the funds for illegal purposes. Investors caught doing the wrong thing can face consequences including administrative penalties, having the fund wound up (and then facing tax penalties of 45 per cent) or possibly being disqualified from running a fund.

### APRA capability review launched

Following the recommendations of the Hayne Royal Commission, the government announced a capability review of APRA, which oversees banks, credit unions, insurance companies and most members of the superannuation industry. The panel is chaired by former ACCC chair Graeme Samuel who is joined by Diane Smith-Gander (former senior exec at Westpac) and Grant Spencer (former acting governor of the reserve Bank of NZ). The review will look into APRA's ability to promote financial stability as well as its capabilities to regulate superannuation entities and its enforcement activities.

### Build-to-rent tipped to benefit

According to CBRE's *Australia Real Estate Market Outlook 2019* report, "lower residential land prices will improve returns on prospective build-to-rent developments, with the pace of progression in this emerging sector expected to pick up in 2019". Under the build-to-rent model, investors team up with developers and governments to build high-quality apartments on a large scale, with the sole purpose of renting them out at an affordable price.

### Investment properties on 'black economy' watch list

Investors with multiple investment and rental properties who make undisclosed cash payments to tradies are likely to be caught in a new ATO and Black Economy Taskforce crackdown trawling for b2b transactions evading tax, superannuation contributions and other benefits. Property investors must have tax invoices/receipts for work to substantiate any deductions.

**New building reforms in NSW to benefit investors**
A slew of new reforms to change how new buildings are constructed in NSW are set to come into effect following the outcome of the Shergold-Weir Report. The reforms include requiring building designers and engineers to declare plans of a building comply with the Building Code of Australia, builders to declare buildings have been built according to their plans, as well as the formal registration of builders and building designers. Also included in the changes is the inclusion of a building commissioner to regulate consolidated buildings and being responsible for licensing and auditing practitioners and clarifications in the law to the right of compensation for those affected by negligent building practitioners. PIPA expects the reforms to be good news for investors as buyers will have more confidence that the property they purchase complies with building code standards.

**Forums for Townsville flood & assistance for business**
The ICA's second insurance forum in Townsville, providing guidance to policyholders impacted by the recent catastrophic floods, will take place on 25 March, from 6pm to 9pm. As of 21 February, the wild weather event had resulted in 21,500 claims, with losses estimated at $887 million. Insurers have paid out more than $16 million in support and emergency accommodation to Townsville flood victims to date.

A range of DRFA assistance is now available in 35 local government areas in northern and western Queensland. Eligible small business owners in Burke, Carpentaria, Charters Towers, Croydon, Etheridge and Winton can now access disaster assistance loans of up to $250,000 to repair or replace damaged buildings, equipment or stock and concessional loans of up to
$100,000 to continue business operations. Information on disaster assistance can be found at www.disasterassist.gov.au.

**CPI figures good for renters**
The REIA has said that the December 2018 quarter CPI figure was good news for renters and homebuyers. It noted that rents increased by 0.2 per cent for the quarter and by just 0.5 per cent for the year, with the average annual change being less than 1 per cent since March 2016.

**WA Govt cracks down on bonds**
The WA State Government is targeting landlords who fail to lodge tenancy bonds provided through the Bond Assistance Loan Scheme. Under the scheme, eligible Western Australians can apply for a no-interest and fee-free loan to cover in-going property costs. It includes all or part of the bond, and up to two weeks' rent in advance, to assist them to get into the private rental market. Under the *Residential Tenancies Act*, landlords must lodge tenancy bonds with the bond administrator within 14 days. Data matching has uncovered "a concerning number" of cases where the bond as failed to have been lodged. The State intends to take action against landlords or PMs who have failed to comply with the law with fines of up to $20,000 for every breach applicable if the matter goes to court.

**Airbnb to design houses**
Through a project called Backyard, Airbnb will begin building their own prototype homes this year. Backyard will be an "endeavour to design and prototype new ways of building and sharing homes". Since 2016, the platform has had the Samara division which develops new products and services including "green building materials, stand-alone houses, and multi-unit complexes". While it has not been confirmed what Backyard will build, it is expected to be units aimed at short-term leasing and the rental market which will be adaptable to each occupant.

**Not a good time to sell investment properties**
According to NAB's *Special Insight Report 2019*, one in two survey respondents said it wasn't a good time to sell their investment property or own home. While survey respondents were most positive about renovating their homes and buying a property to live in, they were less positive about buying or renovating an investment property or getting a mortgage for a home to live in or for investment.

**Good news for city rentals**
Research published by RMIT University urban researchers in the *International Journal of Behavioural Nutrition and Physical Activity*, revealed that residents of denser and more walkable suburban developments can keep chronic disease at bay and make lifetime economic and health gains of up to $4,500.

**Illicit drugs still problem for rentals**
The Australian Criminal Intelligence Commission has released the sixth report of the National Wastewater Drug Monitoring Program. Using wastewater data between August 2017 and August 2018, it is estimated that more than 9.6 tonnes of methamphetamine is consumed in Australia each year, as well as more than 4 tonnes of cocaine, 1.1 tonnes of MDMA, and more than 700 kilograms of heroin. The street price of the four drugs based on this quantity is valued at around $9.3 billion. This is leading to a rise in clandestine drug labs and a corresponding rise in the number of insurance claims being lodged by landlords after discovering their rental was used to manufacture illicit drugs, especially meth labs.

**SMEs face cyber attacks**
Chubb's advisory paper, *Cyber Attack Inevitability: The Threat Small & Midsize Businesses Cannot Ignore*, noted that 60 per cent of all cyber events experienced by SMEs in the past three years were caused by external factors such as cyberattacks, hacking and phishing. The advisory noted that something as simple as leaked business email account information could allow a cybercriminal to transfer large sums of money into a fraudulent bank account. Speak to an EBM account manager about Cyber Liability cover to financially protect your business in the event you are a victim of a cyberattack or data breach.

**Legal corner: Agency fined**
Port Hedland (WA) real estate agency, Real Estate Property Shop Network Pty Ltd, and its director have been fined a total of $4,00 by SAT for misconduct relating to its property management services, including making incorrect withdrawals from its trust account. The agency was found to have failed to exercise due skill, care and diligence in breach of the Real Estate and Business Agents Act and Codes of Conduct.