The RentCover Report

INDUSTRY NEWS & VIEWS FROM EBM

Welcome

Unfortunately, Australia has witnessed another ‘natural disaster season’, with hailstorms, historic flooding and several cyclones wreaking havoc across the nation. However, this period is quickly drawing to a close as we settle into autumn – a time of year that is hopefully filled with more blue skies than dark, ominous clouds.

As Autumn blows in, it is a good time to think about giving investment properties a new lick of paint. If a splash of wash ‘n’ wear is on the cards, conventional wisdom says to favour a neutral colour palette, but there’s some new research (featured below) that reveals painting a home in other shades might be the ticket to happier occupants.

And speaking of occupants… The way people are earning incomes these days is evolving and the ‘gig economy’ and ‘side hustle’ are becoming revenue sources for many. However, while a home-based business might be a great way for a tenant to bolster their finances, it could have ramifications for their property owner’s insurance.

Also in this edition of The RentCover Report, we want to raise awareness of tenant death – while something no-one wants to think about, it is something many of our landlords and agents will need to deal with. Below you will find information on what to do if confronted with this reality and how insurance can help ease the financial strains that often accompany such tragedy.

On behalf of everyone at EBM RentCover, I wish you and yours an *egg-cellent* Easter break. I also hope you will join me in paying respect to those who have served and are serving to protect freedom this Anzac Day. Lest we forget.

Sharon Fox-Slater
Managing Director, RentCover

An egg-cellent excuse for chocolate

For many of us, it wouldn't be Easter without the odd chocolate egg or 20! Here are a few fun facts to contemplate while you are unwrapping your next delicious chocolatey morsel:

- Egg-normous: The tallest Easter egg chocolate was made in Italy in 2011. It stood at 10.39m and weighed an astounding 7,200kg.
- Egg-treme: The largest chocolate bunny ever made weighed 4,245.5kg and was 4.52m high, 2.11m wide and 1.76m long. It was made by Equipe da Casa do Chocolate in Brazil in February 2017 and took a team of nine professional chocolatiers working eight days straight to build.
- Egg-travagant: The world's most expensive edible Easter egg was made in 2006. The $100,000 egg was created by La Maison du Chocolat and had over a hundred half-carat diamonds encrusted into the shell.
- Egg-ample: Are you an ears, arms or tail person? According to a survey carried out by the National Confectioners Association, 76 per cent of people eat the ears first, while only 5 per cent start with the feet and 4 per cent with the tail.
- Egg-zotic: The 'crocodile finish' on Easter eggs was originally designed to disguise minor imperfections that would otherwise be obvious on a smooth chocolate shell.
- Egg-ceptional: Over 500 million Cadbury's Crème Eggs are made in a year. If you piled them all on top of each other, they'd be ten times higher than Mount Everest! In Australia, 25 million are consumed annually.
- Egg-traordinary: The UK's first chocolate egg was produced in 1873 by Fry's of Bristol. The first mass-produced egg appeared in 1875 and was created by Cadbury.
- Egg-zemplary: People started to give chocolate Easter eggs as gifts in the early 1900s.
- Egg-onomics: Aussies are expected to spend more than $170 million on chocolate and confectionary over Easter. According to a survey conducted by ME Bank in 2018, 88 per cent of Aussies buy chocolate at Easter, with an average spend of $62 while families spend even more, an average of $74. It also found 67 per cent of us choose to buy smaller quantities of more expensive, higher-quality chocolate.
- Egg-citing: Australians are among the largest consumers of Easter eggs in the world, with Cadbury Australia alone producing more than 270 million Easter eggs each year, which equates to about 12 eggs a person.
- Egg-static: Cadbury's factory in Ringwood, Melbourne made 70 different Easter products last Easter, including 250 million tiny eggs, 63 million small eggs and 17 million bunnies.
- Spoil sport alert: The National Heart Foundation says just one 100-gram Cadbury egg contains 2,230 kilojoules (532 calories) and will take at least a 40-minute run to burn off. The Heart Foundation notes that you need to go for a 20-minute run to burn off just one 39-gram Cadbury Crème Egg (718 kilojoules/171 calories). Surely the act of unwrapping the eggs must burn off some calories…

Do the hustle!

The ‘gig-economy’, mum/dad-preneurs, social media influencers, ebay stores, Uber drivers, Airbnb hosts, and consulting – the way people are earning money is evolving. However, could a tenant’s ‘side hustle’ be jeopardising the landlord’s insurance cover?

When a property owner wants to run a business from home, it’s a relatively simple matter between them, their accountant, their insurer, the ATO and the council. However, it isn’t so simple when a tenant wants to run a business from their rental.

Operating a business from a rental is likely to be a breach of the tenancy agreement. At its most basic level, “a residential tenancy agreement is an agreement under which a person grants another person for value a right of occupation of residential premises for the purpose of use as a residence”. The salient point being that the property is used as a “residence”, not for a business/commercial enterprise.

So a tenant may breach their rental agreement if they use the premises for business purposes without the lessor/property manager’s approval. A tenant’s rights under the *Residential Tenancies Act* may also be affected if the primary use of the rental property is not residential.

Aside from potentially breaching the lease agreement, having a business operate from the rental premises is also likely to invalidate the landlord’s insurance cover.

Running a business from the premises greatly increases risks – opening up the landlord’s exposure to loss or damage and even liability claims (it’s important to note that the landlord’s Public Liability will not cover customers/clients visiting a business). This is the reason why many insurance policies exclude cover for properties that house a business. In order for the landlord to maintain full cover on their insurance policy, neither landlord nor agent should allow tenants to trade from a residential property.

Many tenants won’t ask permission to operate a business from their home, and landlord and agent will often be none the wiser until something goes wrong, like a fire or flood destroys stock or someone visiting the premises injures themselves and claims compensation. If the landlord/agent is not aware of the business operating, they are likely to be covered by their insurance.

Of course, many tenants do ask if they can operate a business from their home. If it could mean the difference between their tenant being able to pay their rent from the extra income, or not, many landlords will consider allowing them to do so.

If a landlord is considering giving a tenant permission to operate a business from their rental, they need to do their own due diligence and not rely on info provided by their tenant or other third-parties. In particular, they should:

- Check whether the local council permits businesses to operate from residential premises (and any restrictions, exclusions etc.)
- Ensure that the predominant use of the property will remain as a “residence”
- Investigate if the lease arrangement is ‘commercial’ or ‘residential’ (there can be ramifications in terms of tax and GST collection etc.)

- Discuss any issues pertaining to the premises being a registered business address (including appearing in directories, legal matters etc.)
- While it is the responsibility of the tenant to ensure that they have all relevant licenses and registrations as required by law to operate their business, and to ensure that their business complies with all relevant legislation, get the tenant to provide evidence that they have obtained written authority from the council/relevant permits/licences and registrations etc. to operate a business
- Consult their financial institution to check whether the mortgage they have on the property prohibits a business being conducted on the premises (breaching the condition could result in the loan being terminated and necessitating immediate repayment)
- If the property is governed by a body corporate, check if operating a business from an apartment/unit is permitted
- Understand precisely what sort of business the tenant intends to operate – as some pose more risks than others (it goes without saying they should ensure that the business proposed is not illegal or they could find themselves sharing a cell with their tenant!)
- Ensure the tenant has their own Public Liability insurance, especially if customers/clients/suppliers will visit the premises – obtain a copy of the Certificate of Currency (including at each subsequent renewal)
- Sight evidence that the tenant has all applicable insurances for running a business (the types of insurance needed will depend on the nature of the business – they should speak to a business insurance broker) and that the tenant is well aware that the landlord's insurance cover does not extend to their business operation (make sure there are no 'grey' areas about who is covered for what)
- If permitted, amend the rental agreement with a special condition specifying that any insurances associated with the business operation are the responsibility of the tenant, that they agree to ensure the insurance remains current and that the landlord assumes no responsibility for risks associated with the running of the business
- Determine if the business will cause noise or nuisance for neighbours
- Scope the parking situation
- Find out if the tenant will store stock on the premises or have stock delivered
- Decide if running a business from the rental will impact maintenance and repair obligations – will there be increased wear and tear at the property, over and above what would be normal for the home – and the implications for utilities such as water, electricity, phone/internet lines or provided appliances such as aircons or dishwashers
- If the tenant proposes to install any fixtures or fittings to run the business, specify who will be responsible for removal/reinstatement etc. (or make it clear doing such is not permitted, especially if there are restrictions on the building such as heritage listing)
- If upgrades to the property are required to operate a business (e.g. security, locks, fire extinguishers, universal access etc.), decide which party is responsible for the costs/installation
- Put any agreement in writing and have it overseen by a professional (e.g. lawyer) – and don't forget to let the agent know about any agreement made (the contract with the agent may also need to change)

If a landlord does agree to allow a tenant to operate a business from their residential investment property, the landlord should notify their insurer to discuss cover options. While allowing a tenant to operate is likely to void an existing landlord insurance policy (there is usually a clause that prohibits the residential premises being used for commercial purposes), the insurer may have other options available for the landlord.

The insurer will advise whether they will extend cover and under what conditions, the type of policy and excesses that are applicable, and the premium payable to cover the risks. They will also outline their conditions for extending cover, such as requiring tenants to insure against the risks accompanying the business in the landlord's name and in their name. This is important from a liability perspective. If a customer/client/supplier is injured on the property they could sue the tenant but the landlord could also be liable and there may be questions asked about why the property wasn't safe etc.

Allowing a tenant to operate a business from the rental premises is not a decision landlords and agents should take lightly – there are plenty of considerations, not least of which is the impact on the landlord's insurance cover. If faced with this dilemma, EBM RentCover can advise on insurance options to ensure landlords safeguard themselves and their investment.

Less morbid curiosity, more stark reality

It's something that no agent or landlord wants to think about, but the death of a tenant is something many could face. Do you know what to do in the event of tenant death to save you from confusion, stress and even legal problems?

In an ideal world, no agent or landlord would ever be confronted with the death of a tenant at a rental. Sadly, the reality is that many will have to deal with just that eventuality. Whether a lone tenant simply passes peacefully in their sleep or the death is far more traumatic, both landlords and agents need to be prepared. This means knowing what the implications are for the rental property and also your obligations.

Financial ramifications

The death of a tenant is not only emotionally challenging (especially if the landlord or agent finds the body[*], which often happens when chasing up unpaid rent[×]), it can also have serious financial ramifications.

The financial costs vary depending on the circumstances. There can be direct costs in terms of loss of rent and clean-up, and indirect costs if a property is slow to re-lease (possibly due to the stigma of being associated with a traumatic event).

Each year EBM RentCover handles 15-20 claims relating to a death of a tenant. As these recent examples show, it makes sound financial sense to have a landlord insurance policy that provides financial protection against losses incurred due to tenant death.

<u>Claim example 1:</u>
Police were called to the property after neighbours complained of an unpleasant smell emanating from the home and found the tenant had passed away. The home was contaminated by bacteria and odour, which required forensic cleaning and removal of all soft furnishings ($9,000). All of the furniture (the home was let fully-furnished and the policyholder had cover for loose contents) also had to be replaced ($11,000 for replacement furniture, $4,500 to replace the carpets). The landlord was also able to claim for loss of rent during the course of the repairs ($2,000) and, as the tenant was on a fixed-term lease, for six weeks' ($2,100) while they found a new tenant.

<u>Claim example 2:</u>
While absent from the property, the tenant passed away suddenly. As the tenant had paid their rent in advance, the rent paid beyond the date the tenant passed away was refunded to the tenant's estate, together with the bond. As the tenant was on a fixed-term lease, the landlord was able to claim for six weeks' loss of rent ($2,550) while they found a new tenant.

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[*] If you find a deceased person at the rental, leave the property trying not to disturb anything and contact the police immediately. They will handle formalities like contacting next-of-kin. You will need to liaise with the officer-in-charge of the investigation to ascertain when access can be expected etc. It should be noted that when the property is released by the police, it will be in the same state in which it was found, minus the body. Generally, the police will not arrange for the premises to be cleaned or damaged contents removed (even in traumatic death cases/crime scenes), they can, however, provide contact details for forensic/trauma cleaners.

[×] If you suspect that something has happened to a tenant at the property, you can contact the police and request they undertake a welfare check. If you choose to visit the property yourself to check on the tenant, do not enter the premises if there is an unpleasant odour emanating from the home or if you can see blowflies on the inside of windows or doors. Immediately contact the police to attend the property.

Claim example 3:

The agent received notice from the police that the tenant had passed away in the property. Although the tenant's rent was paid up to date (as they had a direct debit set up), it took eight weeks to locate the tenant's family and arrange for them to remove the tenant's belongings from the property. A loss of rent claim was paid to cover the eight weeks ($2,360 – as the tenant was on a periodic lease, loss of rent during re-tenancy was not applicable).

What happens when a tenant passes

Dealing with a deceased tenant's family and friends requires tact, sensitivity and compassion. And while it may be difficult to negotiate issues like clearing out possessions or ending the lease with the deceased's executor/next-of-kin, it needs to be done so that financial losses can be minimised.

The simple fact is, most property investors cannot afford to be without rental income indefinitely, making it important to understand the protocols and procedures to follow when dealing with tenant death.

Landlords and agents must follow the state and local laws applicable for appropriately handling tenant deaths at rentals – serving notices, terminating leases, returning bonds, disposing of tenant possessions, disclosures etc. Failing to do so, could pose legal issues.

One of the main aspects to understand is that when a tenant dies, the lease does not automatically terminate, nor does the landlord have the right to immediately take possession of the property or remove the tenant's belongings. The owner is entitled to have rent paid (from the bond or estate) until the lease is terminated and regain the property in the state it was in at the start of the lease (with fair wear and tear excepted).

If a sole tenant (i.e. only tenant on the lease) passes, the landlord/agent must follow their state's procedure for ending the lease and returning the bond. It should be noted that the deceased tenant's property, debt and contracts transfer to the estate or next-of-kin. This includes their rental agreement and in most states landlords can hold the estate accountable for any unpaid rent for the remainder of the lease term, though most landlords will show compassion and work with the family/executor and allow them to terminate the lease and move the deceased's belongings. The next-of-kin/executor is responsible for rent and for providing vacant possession – they need to deal with the tenant's possessions and arrange cleaning of the property (including any specialist cleaning required). The landlord is entitled to access the bond as they normally would (for unpaid rent, damages and any other costs established in the lease agreement) and any remaining bond monies become part of the tenant's estate (provide an itemised list of deductions made from the bond and provide that to the executor along with any remaining funds).

In cases where sole tenants pass away, landlords can often face prolonged periods where no rental income is generated, due to the time required to re-instate the premises, track down next-of-kin to remove possessions or, if the state trustee is made responsible, the time taken for the possessions to be auctioned off and funeral held. Landlord insurance can respond to loss of rental income in this circumstance (provided the deceased was the only person named on the lease) under the tenant death provisions. Landlord insurance can also respond to forensic cleaning and repair costs etc. if the next-of-kin/executor fails to foot the bills.

If a co-tenant dies (i.e. joint tenant), this also does not automatically end the lease. The tenancy can simply continue but in most states the remaining tenants are under no compunction to do so and landlords/agents can negotiate with them to terminate the lease early and take vacant possession. If the co-tenant chooses to stay on, their rights and responsibilities continue under the tenancy agreement (they become 'the only tenants' responsible for all matters and this means they can't blame arrears or property damage on the deceased tenant) – and this includes the requirement to pay rent. If a co-tenant is not able to and stops paying rent, an insurance claim may be able to be made under a different section of the policy (e.g. rent default) to cover the rental losses.

Making an insurance claim
Chances are, if a sole tenant passes away, the landlord will need to make a claim on their insurance for loss of rent and even for forensic cleaning expenses. To assist with an insurance claim, the landlord/agent should:

- When notified of a tenant's passing, secure the property –
    - make sure the doors and windows are locked (consider changing the locks if you are permitted by law to do so, as this stops others with keys from being able to enter the premises and remove items before an executor takes charge) and ensure any pets are taken care of
    - make sure not to remove any items from the home
    - take a video of the property and its condition upon your entrance (documenting tenant possessions, state of the home etc.)
    - take a witness with you when you enter the premises (at the least, use a smartphone to record your entry)
    - do not let the deceased's family or friends inside without accompanying them and do not let them take anything; if clothes for the deceased or photos for a memorial service etc. are taken from the home, make sure to document this
    - once you are advised of the executor (sight proof) provide them with a key as it is their responsibility to take charge of the tenant's personal property etc.
- Contact the insurer to check cover inclusions and what paperwork is required
- Open the lines of communication with the deceased tenant's executor/next-of-kin so you can discuss transitioning the rental property back to the owner
- Get written notification of a tenant's death from their executor or next-of-kin, as the notice is important when it comes to recouping any financial loss, assisting family members and transitioning the property for new occupants (insurers require a copy of the death certificate, if one is not available, talk to the insurer about whether other documents, such as a published funeral notice, can be supplied instead)
- Liaise with the executor/next-of-kin about vacating the property and disposal/removal of the tenant's possessions – offer contacts for companies which might be able to help pack, sort or store possessions until the family is ready to deal with them
- When the property is vacated, have the home cleaned (specialist cleaning may be required) if the executor has not already done so
- Keep all receipts and records to assist with your claim
- Document all contact with the deceased's executor/next-of-kin and keep excellent records about any actions you take regarding the property
- Advertise the property for re-leasing as soon as practicable (be sensitive about the timing of open for inspections or other contact, for example the timing of the funeral) and keep written evidence of advertising activity
- Once the property has been re-let, submit an insurance claim with relevant supporting documentation

Landlords and agents have peace of mind knowing that the financial strains that accompany tenant death can be alleviated by insurance cover. In addition to cover for damage and forensic cleaning costs, RentCover*Ultra* and RentCover*Platinum* policies cover rent arrears and loss of rent that accrue while the tenant's goods are removed, the property is cleaned and the period of vacancy until a new tenant is found (subject to the terms, conditions, exclusions and provisions outlined in the PDS). RentCover*ShortTerm* policyholders are also covered for damage/cleaning and for loss of rent due to tenant/guest death. Our caring and compassionate Centre of Expert Care team members are always on hand to assist with claims during difficult times.

Colour me happy (to pay the rent)

Autumn can be the ideal time to give an investment property a lick of new paint. While 'Magnolia' seems to be the go-to choice for rentals, there are other paint colours that could prove profitable.

Heat and cold can play havoc with paint so autumn, with its more constant temperatures, can be the ideal season to refresh an investment property.

Conventional design wisdom suggests you should use a neutral colour palette so that the rental appeals to the broadest tenant pool. This means focusing on white, off-white, cream or grey paint on the walls and mid-tone floor colours like grey or taupe, with a nod to current trends to give the property a contemporary edge. But before contacting a painter and ordering litres of 'Magnolia', why not consider some other colours that might be a big hit with tenants?

A world-first Australian study combining colour psychology, neuroscience and virtual reality (VR) has revealed how the colours in homes can affect mood.

A team of neuroscientists and psychologists from The Florey Institute of Neuroscience and Mental Health partnered with Melbourne-based Liminal VR and Taubmans Paints to assess a range of colours in real-life environments and determine their effect on emotions.

The research "scientifically proves that painting your walls in different colours can bring out a whole range of emotions".

A spokesman for Taubmans said: "The right colours will make you feel relaxed and calm, or cheerful and excited, yet pick the wrong colour scheme, and your walls risk making you [or your tenants] feel bored, sad, tense, and, worst of all, irritated."

Key findings of the research:

- Pastel colours (soft grey-green, faded lilac, pale blue) were nominated as the most relaxing hues
- Neutrals (eggshell, cream, pale green) were the most calming shades
- Sunny yellows rated as the most cheerful
- Pinks and oranges proved divisive – making some people feel cheerful and excited, and others irritated and tense
- Charcoals and other dark colours made some people feel sad, while others expressed surprise and delight
- Light blues and greens are generally regarded as serene

Landlords can use this intel to help select the best colours to paint their rentals – choosing colours that are likely to make prospective or existing tenants feel relaxed and calm when they enter the property, which is just what many people look for in their homes. Landlords with trendy inner-city investment properties may favour exciting or cheerful colour schemes instead that appeal to a different target market.

Whether you decide to stick with a tried and tested neutral scheme or venture into shades that evoke positive emotions, these tips could be useful:

- Engage a professional painter – according to ServiceSeeking.com.au, the average standard painting job is charged out at $40 per hour (excluding cost of paint and materials) – make sure they are licensed (required in NSW, SA, Queensland, Victoria and WA), police cleared and fully insured
- Use quality paints that don't show dirt and are 'washable' or 'scrubable'
- Choose the right type of paint for the job – water-based or oil-based, gloss, semi-gloss, low-sheen or matt finish
- Make sure the surfaces are properly prepped if you are doing the work yourself (a pro will do this)
- If the wall surfaces are less than ideal, consider a textured finish paint (which can hide a multitude of sins) or wallpaper instead
- Don't forget about the exterior of the home (windows, doors, railings, fences, roofs) – these are best tackled by a professional with their own Public Liability cover (you don't want to be up ladders or dangling from gutters!)
- Damaged paintwork like bubbling or flaking could indicate underlying issues like damp, termites or wood rot, so don't ignore any evidence of problems, get a professional in to investigate (repairs and maintenance are generally tax deductible and will also safeguard the insurance cover which requires the property to be adequately maintained)
- Consider letting your tenants chose their own colour schemes (once new legislation passes in some states, they'll be able to do this without seeking your approval) if they don't care for yours – just make sure that a professional comes in to do the work (letting 'handy' tenants DIY can risk voiding landlord insurance cover) and that if they 'go bold' they agree (in writing) to re-instate a neutral colour scheme

A property spruce-up goes over well with tenants and choosing the right colour to paint the walls could help ensure that you have happy renters – and happy renters are more likely to pay their rent on time, stay longer and look after the property as if it were their own.

Staff profile: Tom Teom

Tom took a chance on a career in insurance

After three years on the “graveyard” shift as Hospitality & Gaming Manager for the Australian Leisure and Hospitality Group, a career change was on the cards for Tom Teom. The skills he built through his double degree in Hospitality Tourism and Marketing translated easily to a new industry where customer service was also his core focus.

Tom took up a customer service role with insurance giant Suncorp, in 2008, and soon carried his passion for the industry and customer service into a position as a Personal and Commercial Lines Underwriter.

“I was mentored and encouraged by a number of senior business development managers to progress my career by moving into insurance broking. I then joined OAMPS as an Account Executive managing their Victorian and Tasmanian personal and commercial lines portfolio,” said Tom.

“In early 2014, I was approached by Smart Business Insurance to join the brokerage as a Senior Account Executive and manage a team of 10 staff with a focus on new business.”

Two years later a close friend and former employee encouraged Tom to join EBM.

Initially applying for a position with EBM RentCover as a Relationship Manager, Tom’s talent for customer service and experience managing a portfolio resulted in him being offered the role as Commercial Account Manager within the Melbourne broking team. By mid-2018 Tom was managing his own SME portfolio, and is excited about the prospects of strong growth in the future.

Tom works closely with a range of clients, including EBM RentCover policyholders, real estate professionals, property owners, business owners and trades. He prides himself on building strong relationships and providing the most effective risk solutions for each client’s individual needs.

“I see part of my role as a client advocate, assisting and helping all our clients to have a better understanding of the insurance products available and providing risk mitigation advice to help them protect their income and assets”, said Tom.

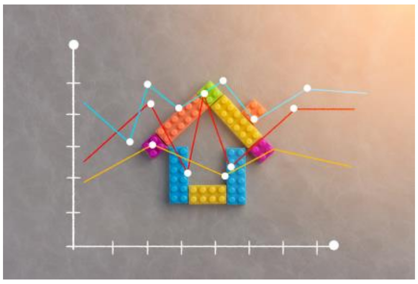
“I find it very fulfilling to be able to assist and guide our clients through the whole insurance process, from risk assessment and risk mitigation through to claims lodgement and settlement.

“I appreciate the opportunity to work with a team of professionals who hold themselves to the highest standard and operate with great passion for the insurance industry. I am honoured to work with people who are willing to go the extra mile to assist each other and their clients.”

And speaking of miles… away from the office, Tom enjoys exploring the vast Australian coastline with family and friends. His interest in the water required him to learn a new skill – to swim.

“Growing up I never had the chance to learn to swim as it was not part of the school curriculum in Cambodia. After years of excuses, I have finally taken swimming lessons and often go down to the local pool to practice.”

Investment Property Market Snapshot



Latest industry statistics and analysis.

Asking rents down

In March, capital city asking rents declined 0.2 per cent to $559 p/w for houses and $441 p/w for units, according to SQM Research. Adelaide and Hobart recorded increases in weekly asking rents for both houses and units. Sydney, Brisbane, Canberra and Darwin recorded marginal decreases in both house and units rents. Across the capitals: Canberra $644 p/w houses / $455 p/w units; Sydney $706 / $507; Darwin $490 / $378; Brisbane $456 / $370; Adelaide $394 / $302; Hobart $437 / $364; Melbourne $543 / $420; and Perth $440 / $333.

Vacancies steady

SQM Research showed the national vacancy rate remained steady at 2.2 per cent in February. The total number of vacancies Australia-wide was 72,333. Adelaide was the only capital to record an increase in vacancies, up 0.1 per cent to 1.2 per cent. Falls of 0.1 per cent were recorded in Brisbane (down to 2.6 per cent), Canberra (0.8 per cent), Darwin (3.7 per cent) and Hobart (0.4 per cent). Melbourne's vacancy rate declined 0.2 per cent to 1.7 per cent, while Sydney (3.2 per cent) and Perth (3.0 per cent) remained steady.

New home lending falls

The ABS's Lending to Households and Businesses for January 2019 revealed housing finance commitments for households declined 2.4 per cent (seasonally adjusted) – driven by falls in new lending both for investment dwellings (-4.1 per cent) and for owner-occupier dwellings (-1.3 per cent). The fall in lending commitments to households follows a 3.6 per cent fall in December 2018. The value (seasonally adjusted) of new lending commitments for investment dwellings was down 28.6 per cent from January 2018 and down 17.1 per cent for owner-occupier dwellings.

Investors holding back

According to Digital Finance Analytics' household surveys, just 10 per cent of solo and 15 per cent of portfolio investors intend to transact. The analysis found investors are less convinced by future capital appreciation and most now rely on tax efficiency. Concerns around regulatory changes and finance availability were the main barriers for investors.

Banks tweak investor mortgage rates

As of 25 March, ANZ introduced changes to its interest-only loans for investment purposes – increasing the LVR from 80 per cent to 90 per cent and extending the maximum loan term from five years to 10 years. As of 15 March, Macquarie decreased the rate on its investment fixed rate loans by 0.05 per cent for 1-, 2- and 3-year loans. At ME Bank, investment variable rate loans with P&I repayments, for an LVR of 80-90 per cent, decreased by 0.27 per cent. On 7 March, NAB reduced the fixed-interest rates on its Tailored Home Loans for investors for both P&I and IO loans.

Investment loans over 2018

APRA's *Quarterly Authorised Deposit-taking Property Exposures* for December 2018 revealed the value of all ADI residential loans to households was $1.65 trillion as at 31 December 2018, an increase of $75.8 billion (4.8 per cent) on 31 December 2017. Owner-occupier loans accounted for $1,108.1 billion (67 per cent), an increase of $70 billion (6.7 per cent) from the year prior and investor loans were $546.2 billion (33 per cent), an increase of $5.8 billion (1.1 per cent). ADIs with greater than $1 billion of resi term loans held 99 per cent of all loans at the end of 2018, with 5.9 million loans totalling $1.64 billion. Of these, the average loan size was $276,000 and $407.3 billion (24.9 per cent) were IO loans.

In contrast, ADIs with greater than $1 billion of residential term loans approved $359.3 billion of new loans in the year ending 31 December 2018, a decrease of $25.1 billion (6.5 per cent) on the year ending 31 December 2017. Of these new loan approvals, owner-occupier loan approvals were $250.1 billion (69.6 per cent), a decrease of $7.4 billion (2.9 per cent) from the year prior, while investment loan approvals were $109.2 billion (30.4 per cent), a decrease of $17.7 billion (14 per cent). Of the new loans approved, $49.5 billion (13.8 per cent) had an LVR greater than 80 per cent and less than or equal to 90 per cent, a decrease of $4.5 billion (8.4 per cent) and $23.8 billion (6.6 per cent) had an LVR greater than 90 per cent, a decrease of $3.8 billion (13.7 per cent). IO loans accounted for $57.7 billion (16.1 per cent), a decrease of $36.6 billion (38.8 per cent) from the year ending 31 December 2017.

House prices fall at fastest rate in 15 years
According to figures released by the ABS, capital city housing prices are falling faster than at any time in the past 15 years (including during the GFC when prices fell 4.6 per cent in the March 09 quarter). Prices dropped 5.1 per cent on average across the eight capitals over the year to the December 2018 quarter. Across the capitals: Sydney (-3.7 per cent in the December quarter / -7.8 per cent for 2018); Melbourne (-2.4 / -6.4), Brisbane (-1.1 / -0.3), Perth (-1 / -2.5), Darwin (-0.6 / -3.5), Canberra (-0.2 / +1.8), Adelaide (+0.1 / +1.5) and Hobart (+0.7 / +9.6).

Land prices rise as demand drops
According to the March 2019 *HIA-CoreLogic Residential Land Report*, the price of land for new residential building rose as demand fell – with land lot prices across Australia rising 0.8 per cent to reach $279,949 while the number of residential land lots sold fell by 16.2 per cent in the September 2018 quarter.

Resi property prices fall
Residential property prices fell 2.4 per cent in the December 2018 quarter, according to ABS figures. The total value of Australia’s 10.3 million residential dwellings fell by $133.1 billion to $6.7 trillion – with the mean price of dwellings now $651,100.

Home prices soften
REIA’s *Real Estate Market Facts* report for the December 2018 quarter revealed prices declined 2.3 per cent for houses and 2.4 per cent for other dwellings, Australia-wide. The national median declined to $733,438 for the quarter, which was due to falls experienced in all capital cities except Hobart, Adelaide (where prices were up) and Perth (where prices remained stable). Melbourne saw the largest decline in house prices for the quarter, down 3.7 per cent to $796,000. Other dwellings also saw the weighted average median price decline to $570,905 for the quarter, with Perth recording the largest decline – down 5.1 per cent down to $375,000. Adelaide had the lowest median house price for the quarter at $475,000 and Darwin had the lowest median other dwelling price at $350,000.

Rents rise
The quarterly rental market saw increases in the median rent for three-bedroom houses for all capital cities, with the exception of Sydney, Melbourne and Hobart where they held steady, according to the same REIA report. The median rent for two-bedroom other dwellings increased in Canberra and Hobart, remained steady in Brisbane, Adelaide and Perth and decreased in Sydney, Melbourne and Darwin. Hobart had the largest increase, while Sydney had the largest decrease – with the weighted average vacancy rate for the eight capital cities remaining steady at 2.6 per cent during the December quarter, a decrease of 0.1 percentage points for the year. The markets of all capital cities except Darwin had vacancy rates at or below the 3.0 per cent benchmark, indicating a strong demand for rental accommodation. Darwin had the highest vacancy rate of 8.2 per cent, which is 1.9 percentage points higher than the same time as last year, an indication of low demand, REIA noted.

News in brief

ATO crackdown on property investors
Following an audit of over 300 rental property claims, where the ATO found errors in almost nine out of 10 returns reviewed, the tax office is set to launch a major crackdown to correct and catch inappropriate claims. "We're seeing incorrect interest claims for the entire investment loan where it has been refinanced for private purposes, incorrect classification of capital works as repairs and maintenance, and taxpayers not apportioning deductions for holiday homes when they are not genuinely available for rent," said ATO boss Chris Jordan. On top of the compliance work it is already doing with property investors, the ATO is now set to target these inappropriate deductions.

Solar for rentals
Following a successful solar trial for public housing, the Queensland State Government has introduced the $4 million Solar for Rentals program. Up to 1,000 landlords with properties in Bundaberg, Gladstone and Townsville will have the opportunity to receive a rebate of up to $3,500 on the installation of a solar power system. A rebate can be sought for each rental property owned and is in addition to the existing 'solar rebate'.

Landlords make snap decisions
A survey by realestate.com.au found 63 per cent of landlords spend less than two weeks selecting a property manager, and half go with the first agent they connect with. The research also found many landlords sought out reputable brands and 49 per cent said they prefer a customised offering.

Developer to enter PM space
Apartment developer Finbar is moving into property management. The ASX-listed firm's Finbar to Rent division will provide buyers of the group's apartments with a fixed-fee management service and investors will pay no additional costs associated with letting fees or advertising. They will also offer a loyalty rewards program.

Property strategy concerns ATO
Given current market conditions, the ATO is set to contact individuals it believes have risky property strategies in their self-managed super funds (SMSFs). Overwhelmingly, property is the most popular investment choice, and 95 per cent of all loans in an SMSF are for the purpose of property investment. The ATO has signalled its concern about the possibility of "concentration risk" in some funds (i.e. the savings and viability of a portfolio is compromised due to the dominance and reliance of one asset), with the risk being compounded by falling property prices across Australia and struggling rental yields in some capital cities. The ATO will contact SMSF investors which it believes are at risk of compromising their retirement savings based on their property strategy.

Good news for Perth landlords
Rents in Perth are tipped to soar by year's end and listings continue to decline (down 26 per cent on the previous year), according to REIWA. PMs are reporting bigger crowds at home opens and a return to tenants making offers above the asking price. REIWA is predicting rents will rise by at least 10 per cent through the year, and a resurgence in mining activity is boding well for the rental market. Corelogic also indicated a revival of the Perth rental sector, with rents climbing 2 per cent over the past 12 months (though still down about 20 per cent from their peak) – the last time they were growing at that level was in 2013.

Bank scraps spotter fees
As of 1 October 2019, the National Australia Bank will no longer offer its 'Introducer' payments program, which provides a commission (0.4 per cent of any loan successfully pitched by the introducer) to businesses for referring customers to the bank for a loan.

Summer weather catastrophes top $2.2bn
ICA figures reveal the monsoon rains in and around Townsville (25,770 claims worth a total of $1.04 billion), the NSW hailstorm (130,000 claims worth $1.2 billion) and the Bunyip bushfires (365 claims totalling $20 million) caused a combined $2.2 billion in insurance losses. Costs for insurance claims relating to cyclones Trevor and Veronica have yet to be calculated.

Oz cities become cheaper
Sydney, Melbourne, Brisbane, Adelaide and Perth have all become less expensive cities in which to dwell, according to the latest rankings from *The Economist*. The review, which collates the prices of around 160 products in a city and compares them with prices in New York, found prices in the Australian capitals had fallen over the year. Sydney ranks as the 16th most expensive city (dropping 6 places), Melbourne 22nd (-8), Brisbane 41st (-15), Adelaide 51st (-21) and Perth 64th (-18). For the first time, three cities share the title of most expensive – Singapore, Paris and Hong Kong.

Sydney popular among ultra-rich
According to Knight Frank's Wealth Report 2019, Sydney is ranked 30th out of 100 cities in the movement of luxury property prices. Brisbane (31$^{st)}$, Melbourne (41st) and Perth and the Gold Coast (tied for 42nd) all made the top 50 list for prestige property growth over the past year. Australia's prime market continues to track above the global average for luxury resi price growth – Sydney recorded 3.1 per cent growth, Brisbane 3 per cent, Melbourne 2.2 per cent and Perth and the Gold Coast 2.1 per cent. Australia retained its position as the third most popular country from those planning to buy prestige resi property – just behind the US and the UK.

US$1 million buys you…
As part of its 2019 Wealth Report, Knight Frank also revealed how much US$1 million can buy around the world. Monaco remains the most expensive city in the world, with US$1 million buying 16sqm of accommodation – the equivalent of a bedroom in a luxury home. Hong Kong came in second, with US$1 million buying 22sqm, while New York and London tied third at 31sqm. In Australia, US $1 million will buy 52sqm in Sydney, 97sqm in Melbourne, 123sqm in Brisbane, 136sqm on the Gold Coast and 116sqm in Perth.

Oz 11th happiest country
For the second year in a row, Finland has been named the happiest country in the world, according to the United Nations' *World Happiness Report,* which ranks countries on six key measures of wellbeing. Rounding out the top 10 were Denmark, Norway, Iceland, Netherlands, Switzerland, Sweden, New Zealand, Canada and Austria. Australia dropped out of the top 10, coming in at 11th.

Canberra most liveable
According to new data from realestate.com.au and Ipsos, Canberra is Australia's most liveable city. The *Life in Australia* report explores what lifestyle attributes Australians consider to be the most important when choosing somewhere to live, as well as examining how people feel about where they currently live. Canberra retained its title as most liveable for the third year in a row. Perth leapt to second, after Hobart saw a sharp decline to fifth due to sentiment around the affordability of property as a result of the recent pricing boom. The five most important attributes Australians value include feeling safe (67 per cent), high-quality health services (60 per cent), affordable decent housing (58 per cent), good job prospects (41 per cent) and reliable and efficient public transport (33 per cent).

Affordable housing body offers $315m of loans
The National Housing Finance and Investment Corporation is offering community housing providers $315 million worth of loans at cheaper-than-average rates. The independent government authority raised the money through its first issue of bonds – which were snapped up by local and global investors (investors put in bids worth more than four times what was available, totalling more than $1.3 billion). Community housing providers which offer affordable rentals can now access 10-year, interest-only loans through NHFIC at a fixed rate below 3 per cent. Providers in the first loan round are expected to build up to 300 new affordable rental properties with the funding.

One million rentals needed
According UNSW City Futures Research Centre's *Filling the Gap: Costing a National Affordable Housing Program* report, the number of Australians in rental stress – paying more than a third of their income on rent – meant there was a need for an extra 728,600 social housing properties and 295,000 affordable rental homes by 2036. To cover the backlog of unmet need and future need over the next 20 years, two in 10 new homes would need to be social housing while a further one in 10 would need to be affordable rental homes – or at least 12 per cent of all housing by 2036 will need to be social and affordable housing. The research showed it would cost governments $8.6 billion a year to deliver these properties working with the not-for-profit sector.

Drone flyers require licence
CASA is establishing a "flyer's licence" and mandatory registration for drones from July this year. Anyone who flies a drone (whether commercially or recreationally) will be required to be accredited by CASA, and those flying a drone weighing more than 250g will have to pass an online education course. Registration costs will vary based on the different types of drone and how they are used. CASA will also keep a database of flyer data to track users and assist with governance. EBM RentCover can put your in touch with a specialist broker who is able to offer drone insurance for RE clients and their contractors.

APRA to modernise prudential standard
APRA has proposed updating its prudential standard on credit risk management requirements for ADIs. Credit risk refers to the possibility that a borrower will fail to meet their obligation to repay a loan and is usually considered the greatest single risk facing an ADI. The regulator is proposing to change the *Prudential Standard APS 220 Credit Quality* which requires ADIs to control credit risk by adopting prudent credit risk management policies and procedures.

Tech watch: latest platforms & apps
InfoTrack has launched Securexchange to protect real estate agents, conveyancers and buyers from the threat of large financial loss during property exchanges. The system has been specifically designed to prevent the intercepting of insecure emails which may include settlement bank account details by eliminating the need to share account details via unsecured email. Users can create an account, join a secure workspace and then share account details via encrypted links. Full account details are then only visible to authorised parties. Once everyone is ready to exchange, a traffic light system alerts the system administrator to authorise the exchange with the date and time being recorded against the workspace.