



March 2009

RentCover Report – we’ve got you covered

Welcome to the March edition of the *RentCover Report*.

Thanks to our readers and the fantastic feedback we received from the RentCover survey last month, we have made a number of important changes to the newsletter.

Starting this month, one of the first changes you are likely to notice is that *RentCover Report* is early – in fact it will now be delivered to you on the second Wednesday of each month.



Starting next month we will be featuring a regular segment that answers your questions to common claim queries or misunderstandings.

Many of you also said you wanted to hear more about the important issues facing real estate agents. So this month we’re bringing you a story about a recent Supreme Court case in WA involving the misleading conduct of a property owner and real estate agent.

We’re also taking a look at the tragedy of the Victorian bushfires and how the insurance industry is responding, and we’ll examine the reports suggesting a return of cash flow properties in the residential market. We will also meet James Lording as part of our regular staff profile series.

We hope you enjoy these changes to the newsletter and we look forward to bringing you an even better *RentCover Report*!

Sharon Fox-Slater
General Manager, RentCover

Bushfire claims pour in

On 7 February this year Australia's greatest natural disaster quickly unfolded as bushfires raged out of control in Victoria, in conditions that were tragically perfect for a firestorm.

Although the official death toll is still unknown, it already stands at least three times the number of lives lost in both the Ash Wednesday fires of 1983 and the Black Friday fires of 1939.



The fires have destroyed at least 2,029 residential properties and have left an estimated 7,500 people homeless.

Whole communities north-east of Melbourne have either been severely damaged or wiped out completely. Townships such as Kinglake, Marysville, Narbethong, Strathewen and Flowerdale were some of the worst affected.

As of last week, the Insurance Council of Australia estimated that member companies had completed 80% of all insurance assessments for domestic, commercial, farming and industrial claims received from the bushfires.

This amounts to approximately 8,150 claims with an estimated insurable cost of \$1.02 billion, however the Council noted it is likely these figures will continue to be revised as more assessments are completed.¹

To assist in the relief efforts, hotlines have been set up by the Victorian Government and the Financial Ombudsman Service for all bushfire victims seeking help and information on insurance or other financial issues experienced as a result of the disaster.

EBM Managing Director Jeff Adams urged all EBM customers who have been impacted by the bushfires to immediately make contact with their local branch so that any potential claims can be processed as quickly as possible.

“We support and echo the commitment and focus of the general insurance industry in assisting policyholders affected by the devastating bushfires in Victoria,” Mr Adams said.

“Where policyholders can return to their properties and make initial assessments of any damage suffered from the bushfires, they should immediately contact their broker who can provide them with advice on the next stage of the claims process.”

Mr Adams said any EBM customer who may have difficulty locating their insurance documents can still contact their broker for assistance.

¹ Insurance Council of Australia, Victorian Bushfires - Victorian Claims Assessments Progressing Well, 4 March 2009.

Rising water sinks misleading seller

A recent case from the Supreme Court has highlighted the consequences of misrepresenting a property's true condition in a contract for sale.

The case involved a couple who bought a second-hand two-storey property. The lower level of the home included a room which the seller described as a 'fourth bedroom', and a garage.



When the couple indicated that they wanted to use the garage as an office, the seller remained silent during the inspection of the property. He also made no direct comment about his knowledge of the areas being prone to flooding and damp conditions.

When the purchasers moved into the property they discovered both rooms were susceptible to seasonal flooding and rising damp. This was due to the home being built on a slope and the rooms being located below ground level.

Due to the rising water, the purchasers suffered loss and damage as a result of using the garage as an office. Having to sell the property, they also incurred a significant capital loss on the purchase price they were able to achieve.

In taking the real estate agent and the property's former owner to court, the purchasers maintained both parties misled them into believing the garage was suitable to be used as an office and had a duty to tell them it was susceptible to rising water.

Justice Blaxell who presided over the case found that the purchasers did make it known to the seller that a four bedroom house was essential to their needs and that they would be using the garage as an office if they purchased the home. His Honour found that by his silence, the seller had misled the purchasers into believing the home and its condition were appropriate for their needs. His Honour went on to say that the purchasers had

“a reasonable expectation that [the seller] would inform them of any potential problems affecting their ability to use the garage and fourth bedroom for the purposes that were indicated to him.”

In finding the seller liable for the plaintiff's damages, his Honour's statements concerning misleading or deceptive conduct under section 52 of the *Trade Practices Act* are particularly interesting. His Honour found that even silence or inaction on the part of a seller can amount to misleading conduct if that inaction is relied upon by the purchasers.

The case is another example of the importance of ensuring accurate and factual representations are made during all negotiation phases of a property transaction, and that saying nothing is no defence at all.

Return to positive cash flow tipped for 2009

Rising rents, record low interest rates and competitive rental markets will fuel the return of cash flow positive properties in the residential market, experts have predicted.



With interest rates rising between March 2002 and September 2008, property remained an unviable option for many investors who lacked the cash flow to bridge the gap between their rental income and loan repayments.

While far from the historic highs of 17.5%, 12 consecutive interest rate rises brought the official cash rate in Australia to 7.25% as recently as February 2008.²

However with the Reserve Bank rapidly lowering interest rates to their current level of 3.25%, the gap investors must to cover has now become significantly smaller.

But lower interest rates are not the only factor set to encourage a growth in returns for investors in 2009.

Competitive rental conditions across Australia's major capital cities have seen average rental yields continue to rise.

According to Australian Property Monitors, the median weekly asking rents for homes in Sydney increase 16.9% in the year to December 2008. Perth achieved a 12.5% increase in the same period with a more modest 6.1% and 7.1% increase being recorded in Melbourne and Adelaide respectively.³

Similar results were recorded for units across Australia. Units in Darwin recording the biggest price increase with the average rent yield rising 20%.

EBM General Manager Sharon Fox-Slater said recent cuts in interest rates coupled with rising yields will make property an attractive investment to many, regardless of the prevailing financial conditions.

“Property has always been considered a very sound investment, but in recent years, rising land values and prohibitive interest rate repayments tempered the enthusiasm of investors,” Ms Fox-Slater said.

² Reserve Bank of Australia, Monetary Policy Changes.

³ Australian Property Monitors, Quarterly Rental Series – December 2008.

“Although the current economic crisis is affecting the confidence of investors, we are beginning to see certain investment opportunities become far more attractive, and we expect this to lead to increased activity in the residential property sector.”

Ms Fox-Slater warned all potential investors that having adequate landlord insurance over an investment property is an essential part of maintaining a reliable and consistent positive cash flow.

Meet a member of the RentCover team...

This month we meet James Lording from EBM's RentCover team in Victoria.

James has been with EBM for around 10 months now and works as an Assistant Account Manager. He assists with processing all the cheque and credit card payments from agents and direct clients as well as various other processing and admin duties.



Here are a few other things you might not know about James:

1. **What do you like most about your position at EBM?** The variety of roles I get to perform on a day to day basis which means that no two days are ever the same, but often similar.
2. **What do you find most challenging in your role?** Following up queries regarding payments can become quite complicated and confusing, especially if it isn't regarding a recent transaction and isn't still fresh in my mind.
3. **When not at work I...** am either trying to play tennis, watching a movie, reading a book or socialising with friends over a few drinks or a meal.
4. **If I had a three week holiday planned, I would...** like to go somewhere really remote and cut off, but would most likely go somewhere with a nice beach.
5. **I like to splurge on...** I would like to say good food and wine, but unfortunately it is more often bad take away and cheap beer.
6. **One piece of advice that stays with you?** If you enjoy what you do, you will never work a day in your life.



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