



The RentCover Report

Industry News and Views from EBM

April 2010

RentCover Report – we've got you covered

Welcome to the April edition of *RentCover Report*.

As our West Australian readers will agree, the past few weeks have been anything from ordinary.

As I write, many thousands of residents and businesses – including EBM customers – are still picking up the pieces from the destructive hail storms that battered the city late last month.

Severe hail storms battered much of the Perth metropolitan area on Monday 22 March 2010 with golf ball-sized hail, severe winds and torrential rain affecting hundreds of thousands of homes, cars and businesses.

Some early estimates put the cost of the storm at more than \$650 million with many believing this figure will rise as the full extent of the damage becomes known. We have a special report on the storm in this edition.

In other news, this month we look at new survey results which predict further competition in the rental market plus the continuing saga of a real estate agent who claims he was defamed because of a bad cheque!

I hope you enjoy this edition of *RentCover Report* and look forward to updating you again next month!

Sharon Fox-Slater

General Manager, RentCover



What's making news around the country...

According to the Real Estate Institute of **Western Australia**, Perth's median house price is likely to pass the \$500,000 mark in the March quarter as sellers and buyers gain confidence in the market.

The **Queensland** State Parliament has passed a Bill that lowers the cap on the popular \$7,000 grant from \$1 million properties to those worth less than \$750,000.

Recent Australian Bureau of Statistics figures show **New South Wales** led a nation-wide decline in building approvals with the number of dwellings approved falling 14.6% in February 2010.

And in **Victoria**, auction clearance rates continue to run hot according to RP Data with clearance rates approaching 80% being recorded across February and March indicating a strong demand for available housing in the state.



Perth's savage storm declared 'insurance catastrophe'

With thousands of Perth households still cleaning up after severe hail storms swept through the city on Monday 22 March 2010, the Insurance Council of Australia has declared the storms a 'general insurance catastrophe'.

Golf ball-sized hail stones, destructing wind gusts and torrential rain left few homes and vehicles undamaged as it pummelled Perth's city and outlying suburbs.

Tens of thousands of vehicles were battered by the hail with windows and skylights smashed and low-lying areas flooded as a result of the destructive weather pattern.

And with some estimates putting the value of insurance claims at more than \$650 million, the hail storm has become the most costly and destructive weather event in the State's history.

Although this figure could still rise, it easily surpasses all other natural disasters to hit WA, including the May 1994 storms, estimated at \$120 million in today's money.

Unfortunately a number of EBM customers have been affected with some policyholders suffering extensive damage to their properties due to mud slides.

During the 72 hours following the storm, EBM's head office in Perth received more than 230 claims from its commercial and personal lines of cover. More than 150 claims related to property damage and more than 80 were for vehicle damage.

This figure is expected to rise with many thousands of vehicles having their panels and windows damaged by hail stones.

EBM Managing Director Jeff Adams said EBM worked quickly to help those affected by the storms.

"Through our dedicated team in Perth we have continued to make contact with our affected customers to arrange for qualified assessors to visit their properties to estimate any damage suffered," Mr Adams said.

"We understand that in situations like this it is important to ensure any claims arising from these terrible events are processed quickly and property is restored or replaced as soon as possible."

Mr Adams advised any EBM customers who were either directly affected or know of anyone affected by the storms to make contact with their EBM representative as soon as possible.

"If they have not already done so, policy holders should make contact with us as soon as possible so we can provide advice on the claims process," he said.

"In these situations we also recommend customers follow the advice being provided by the Insurance Council of Australia such as making an inventory of the possessions that have been damaged or lost as a result of the flooding."

"However before removing any possessions, customers should contact EBM and, if possible, take photos and record details of items so they can be used in the claims assessment process."

EBM's Perth office can be reached on (08) 9213 4567.



Rate rise to stoke rental competition

In a further sign of the economy's growing capacity, the Reserve Bank of Australia raised official interest rates by 0.25% to 4.25% at its April 2010 meeting.

It was the fifth interest rate hike in seven months and was quickly followed by the country's four major banks.

While the decision has created some division amongst economists on the merits of the rise, Australian households will again have to tighten their belts to meet increased monthly mortgage repayments.

The effect could be more pronounced on prospective first-time buyers however with some analysts predicting the action will have pronounced affects on the national rental market.

According to results from the 2010 Mortgage Choice First Homebuyers Survey, if interest rates rise by two percent, more than a quarter of buyers looking to purchase their first home in the next two years will give up on the purchase.¹

And while Mortgage Choice admitted it was encouraging to see many first-time buyers were prepared for interest rate rises, a significant proportion of those surveyed said they would back out of buying if rates increase.

EBM General Manager Sharon Fox-Slater said rising interest rates will force all homebuyers, not just first-time purchasers, to meet tougher financial requirements.

"As lending criteria gets tighter and forces borrowers to jump additional hurdles such as providing evidence of genuine savings, it is likely that many potential buyers will be priced out of the market," Ms Fox-Slater said.

This outlook confirms predictions by Australian Property Monitors who noted in their most recent Rental Report that:

*"The First Home Owner Boost expiry on December 31 along with very strong house price growth makes moving from renting to owning a less attractive proposition in 2010 than it was during the majority of 2009. Vacancy rates remain very low across the country and population growth is at historically high levels."*²

Ms Fox-Slater said that while investors would also be subject to higher interest payments, increased competition for available rental accommodation will provide certainty of investment.

"With well-maintained properties in desirable locations, owners of investment properties can capitalise on any increased competitiveness for rental properties," she said.

"EBM can help these owners protect their assets by offering them affordable and convenient cover for a wide range of accidents or events."

"By relying on RentCover's range of products, landlords can concentrate on their rental returns with reduced concern about loss or damage."

For more information about the RentCover range including RentCover*Ultra* and RentCover*Platinum*, call 1800 661 662 or visit www.rentcover.com.au.



¹ Mortgage Choice: Survey: First homebuyers may be scared off by small rate rises, 4 March 2010.

² Australian Property Monitors, Rental Report Dec 2009.

Defamed agent takes fight to High Court

Former Century 21 real estate agent Paul Aktas, who claims his successful business and reputation were damaged as a result of a bank error, has taken his fight to the High Court.

Mr Aktas, who had operated in the Auburn area of Sydney, had 30 cheques to property owners bounce because of a bank fault and lost business as a result in December 1997.

Although his trust account had available funds to cover the withdrawals, an error on the bank's behalf meant the cheques were not honoured and this was communicated to his clients.

Mr Aktas claimed to have suffered damage because of allegations stemming from the cheques bouncing so much so that that his business reputation was tarnished and several staff had left.

When the matter first went to trial, Mr Aktas was awarded \$167,000 in damages when a jury found he had been defamed when the bank informed those 30 clients that their cheques had bounced and to 'refer to the drawer'.

The amount represented \$50,000 for personal defamation and \$117,000 to Mr Aktas's company for breach of contract.

However at a subsequent trial, NSW Supreme Court justice Elizabeth Fullerton overturned this decision, finding that the damages for defamation didn't need to be paid because the communication between the bank and its customers was made under 'qualified privilege'. This defense allowed the bank to pass on this information to its clients because they had 'an interest' in receiving it.

When the matter was referred to the NSW Court of Appeal in 2009, three judges ruled that the privilege defense overruled any damages that were due to Mr Aktas personally and brought down the damage payout to \$117,000 as per the original judgment.

The matter has appeared in front of the High Court to debate the issue of whether Mr Aktas is entitled to further compensation due to damage to his reputation.

A decision is expected imminently.

