

February 2010

RentCover Report – we've got you covered

Welcome to the February edition of *RentCover Report*.

Like many homeowners around the country, I was surprised and pleased to see the Reserve Bank keep official interest rates on hold at their February meeting.

The move also stunned the majority of Australia's financial observers, commentators and watchers and property experts who broadly expected rates to rise in response to growth in the economy.

The move to hold interest rates provides some short-term relief to homebuyers and investment property owners around the country; though Reserve Bank Governor Glenn Stevens made it clear in his accompanying February statement that rates would rise this year in order to keep inflation in check.¹



Meanwhile, in this month's edition we introduce a new section that gives you a country-wide wrap up of the biggest news for property managers and investment property owners.

We also look at new research on how market experts expect rental rates to perform this year, examine moves by the NSW Government to further expand sub-letting options for tenants and see how the Western Australian Government is helping streamline real estate agency licensing.

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

Sharon Fox-Slater
General Manager, RentCover

¹ Reserve Bank of Australia, *Statement by Glenn Stevens, Governor: Monetary Policy Decision*, 2 Feb 2010.

What's making news around the country...

In **Western Australia**, records have tumbled according to the Real Estate Institute of WA with figures showing Perth's median house price has bounced back strongly.

Data released this month sees the Perth median house price reach a new high of \$480,000. That's \$5,000 higher than the previous level reached in December 2007 when the property boom was at its peak.



According to the Property Council of Australia, a lower threshold for renewing strata schemes will help Sydney meet future growth projections by providing much needed new housing and office space. The finding is part of the Council's *Strata Title Renewal Plan Process* to facilitate greater turnover of strata schemes in **New South Wales**.

The **Queensland** State Government recently became a part owner in a new public company established to develop a national electronic conveyancing system that will provide a uniform approach for conveyancing matters. The company, to be called National E-Conveyancing Development Ltd, is expected to save hundreds of millions of dollars each year on conveyancing transactions.

And development assessment processes in **Victoria** aren't making the grade according to new research from the Residential Development Council's *Development Assessment Forum (DAF) Reform Implementation Report Card*. Victoria scored 6.2 out of 10 with top marks going to the **Northern Territory** with a score of 7.3.

Mixed reports for this year's rental market

Property investors, renters and agents have every right to be confused with conflicting forecasts on the future of Australia's rental market.

Forecasts from Australian Property Monitors (APM) suggests that, after a stagnant 2009, landlords can start contemplating rental increases with December likely to be the last quarter of flat rental growth.



APM's December 2009 *Rental Market Report* predicts an improving employment outlook means renters generally will be in a better position to be able to meet potential rental increases.²

Other factors APM considered important to future rent increases were the end of the First Home Owner Boost and the recovery of house prices, meaning entry into the property market was no longer as affordable for many homebuyers. Furthermore, vacancy rates are expected to remain low across the country with population growth continuing to increase competition for available rental accommodation.

While this would read nicely for landlords, other statistical data paints a less rosy future.

According to SQM Research, rents are likely to rise only moderately this year – a break from forecasts of significant increases.

Releasing its December *National Vacancy Rate Index*, SQM said there was no evidence at the moment to suggest Australia will see significant increases in rents, with increases between 3-5% in most areas more likely.³

SQM credited this moderate change to the prediction that the supply of available rental accommodation will remain static despite a spike in new dwelling approval towards the end of 2009.

EBM's Sharon Fox-Slater said the improvements in economic conditions generally will start to have an impact on the national rental market.

“With unemployment falling and job certainty increasing, many renters have far more confidence in their financial stability than they did a year ago,” Ms Fox-Slater said.

“While these factors will help influence demand for rental properties, on the supply side, we can see that increased costs for landlords in the form of interest rate rises will deter some from property investment. However the rising land values of current rental properties will start to impact on asking rents throughout 2010.”

Ms Fox-Slater said the fundamentals of property investment remain the same with many areas around Australia offering security of investment and rental return.

“While any investment has a degree of risk attached to it, landlords know at least their assets are covered with RentCover's affordable range of insurance solutions,” she said.

² Australian Property Monitors, *Rental Market Report Dec 2009*, accessed 5 Feb 2010.

³ SQM Research, *December 2009 National Residential Vacancy Rates*, accessed 5 Feb 2010.

Sub-letting rooms ‘the key to chaos’

Landlord fears have been stoked in NSW with news that changes to the laws governing residential tenancies could see them lose control of who rents their properties.

The changes are part of the *Residential Tenancies Bill 2009* which the NSW Government is hoping to introduce this year to update the laws regarding tenants’ rights and responsibilities when it comes to sub-leasing.



According to current laws in NSW, tenants must obtain their landlord's consent before sub-letting. Under this arrangement, the tenant becomes a head-tenant and takes on the landlord role with the person who has rented the room (i.e. the sub-tenant).

The changes would mean tenants can rent out rooms to other people but what has angered many observers, including the Real Estate Institute of NSW, is that the new laws would see any landlords who "unreasonably withhold consent" to this transfer of tenancy or sub-letting agreement face the NSW Consumer, Trader Tenancy Tribunal.

This means landlords could no longer arbitrarily object to a sub-letting arrangement without reasonable grounds and tenants may transfer a tenancy to another person under a written agreement between the two parties.

Although the changes are yet to be passed by Parliament, it would move NSW closer to a rental system similar to major cities like New York where tenants regularly sub-let premises.

However the announced changes have angered many property investors who are uncomfortable with what they see as a loss of control over who rents their property.

Following the announced changes by the NSW Office of Fair Trading, many landlords logged onto website forums to share their anger. Of particular concern to many has been the risk of their property sustaining damage by sub-letters and having no recourse to seek reimbursement.

EBM's Sharon Fox-Slater said although the new changes are not yet part of NSW tenancy regulations, there are potential concerns in relation to current landlord insurance policies.

“What is being proposed by the NSW government has caused a degree of anxiety among many who rely on their rental income,” Ms Fox-Slater said.

“EBM will continue to work with property managers and their landlords to provide them with the most appropriate cover for their situation to give them piece of mind and protect themselves in the event of accidents or unforeseen events. These changes however may require a rethink by Insurers in regard to how they treat landlord insurance claims involving sub-letting.”

The NSW Government will consider community feedback and submissions received on the draft Bill. At this stage, it is intended that the Bill will be introduced into Parliament in early 2010.

National licensing system takes a big step forward

The Western Australian Government has announced a major step forward in the creation of a national licensing system for occupations, including real estate agents.

The Barnett Government has committed to abolishing the Real Estate and Business Agents Supervisory Board, the Settlement Agents Supervisory Board and the Land Valuers Licensing Board from July 1, 2011.



The decision is seen as a key achievement made possible by agreements made by state government and the Commonwealth to introduce a more streamlined licensing system.

In December 2008, an Inter Governmental Agreement was signed to remove duplication and inconsistent rules between the states in the way occupations are licensed.

Announcing the decision, Minister for Commerce Troy Buswell said:

“Reducing the number of Consumer Protection boards will reduce costs but more importantly, it will also cut duplication which will be better for all stakeholders. When a single regulator is responsible and accountable for dealing with issues there is also less red tape and issues are less likely to fall through the cracks.”⁴

Similar reforms have already been conducted for hairdressers, builders and plumbers. Other professions to be affected by the nationalisation licensing process include:

- air-conditioning and refrigeration mechanics;
- electricians;
- land transport occupations (passenger vehicle drivers, dangerous goods); and
- maritime workers.

The developments in Western Australia are expected to be repeated in other states and territories as the real estate profession moves towards national licensing in 2012 under the National Occupational Licensing system which is expected to begin on July 1, 2012.



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⁴ Minister Buswell, *Streamlined advisory framework announced for Commerce*, 27 January, 2010.