

Submission to Parliamentary Inquiry

To: Inquiry into Strata Titled Insurance

From: Phillip and Dianne Richardson

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Property:

[REDACTED]

[REDACTED]

[REDACTED]

Number of Units: 43 units in total

20 being bedsit units 40 square metres in size – one lot entitlement

23 being two bedroom units 83 square metres in size – two lot entitlements

Constuction Date: Completed in 1994 to high cyclone rating code

Besser block with tin roof

Levies 2007/08: Administration Fund \$33,364 or \$505.50 per lot entitlement

Sinking Fund \$17,160 or \$260.00 per lot entitlement

Total: \$50,524 or \$765.50 per lot entitlement

Insurance: Premium to May 2008 - \$5,716.87

Building Valuation - \$4,966,707

Levies 2011/12: Administration Fund \$78,524 or \$1189.76 per lot entitlement
Sinking Fund \$17,160 or \$260 per lot entitlement
Total: \$95,684 or \$1449.75 per lot entitlement

Insurance: Premium to May 2012 - \$42,989
Building Valuation - [REDACTED]

Increase in Levies: Levies 2007/08 - Total: \$50,524 or \$765.50 per lot entitlement
Levies 2011/12 – Total: \$95,684 or \$1449.75 per lot entitlement
Increase in 4 years - \$684.25 per lot entitlement.

Insurance Increases:

To highlight the effect the increases in insurance have had on this complex, I will break down what the insurance component in 2007/08

Total Premium	\$5,716.87
Bedsit	\$86.61 per annum
Two Bedroom Unit	\$173.23 per annum

The same equation using the premium received for 2011/12

Total Premium	\$42,989
Bedsit	\$651.34 per annum
Two Bedroom Unit	\$1302.69 per annum

Analysis of Increases:

In the four year period, the actual cost increases per lot entitlement for just the insurance has increased by \$564.74 per lot entitlement.

In the four year period, the actual cost increases to the owners per lot entitlement has been \$684.25.

As you can see, all other expenses have been limited. The increases over 4 years are \$119.25 for everything other than insurance, which would be expected.

History of Claims:

This property has made very few claims since construction was completed. Any claims have been of a minimal nature such as broken glass. One claim was for a unit damaged by fire, with a total of \$29,000. There have been no claims of a significant nature. No claims were lodged due to damage from TC Yasi.

Building Valuation:

Legislation was brought in by the Queensland Government and each body corporate must get a valuation for insurance purposes every five years.

A report was completed by [REDACTED] in October 2009. The value was [REDACTED].

This equates to [REDACTED] for each bedsit and [REDACTED] for the two bedroom units.

It must be noted that the construction is of a basic nature, the besser blocks have not been rendered externally or internally. The finish of the kitchen, bathrooms and general fixtures and fittings are of a basic quality.

Resale Values:

At the peak of the market, prior to the GFC units of a similar size, design and finish in the Manunda area were selling for

Bedsit Units \$115,000

Two Bedroom Units \$240,000

The Cairns economy has been hit very hard, with unemployment rates being

the highest in Australia at over 13%. All our major builders collapsed and the economy is still struggling to recover. Currently there are units of similar, size, design and finish in the Manunda area that have sold recently for the following:-

Bedsit Units \$82,000

Two Bedroom Units \$140,000

Rental Returns:

Manunda is located approximately 4 kilometres from the Cairns City area. The unit block is located within easy walking distance to Raintrees Shopping Centre and TAFE. There was a large building boom that occurred between 1989 and 1995 in this area. [REDACTED] is one of the largest constructed with 43 units in it. The surrounding complexes are of a similar design and number between 20 and 44 units in each. This area is popular with people looking for a clean, safe environment that is close to amenities, close to the City but still affordable.

Prior to the GFC rentals for a fully furnished bedsit unit that was well presented, fully furnished, air conditioned and security screens were renting for \$150 per week. It was possible to achieve slightly higher, but at \$150 per week we had no issues with reletting the properties and more importantly to investors no vacancies.

Since the GFC up until today, the bottom end of the unit market has been severely affected. We recently had a unit in [REDACTED] become available. It was advertised in the Cairns Post on Wednesday and Saturday, as well as having it listed on www.realestate.com.au. This unit was advertised at \$140 per week, and it sat vacant for over one month. Some have rented as low as \$135 per week.

With the two bedroom units, the rent achievable for a fully furnished, well presented, air conditioned and security screened unit was \$210 - \$220 realistically. There were units in this complex that did rent for \$250 per week.

The demand for these dropped off as it has for the bedsit units. Rents dipped down as low as \$190 per week, but have recovered slightly to \$195 - 200 per week.

Insurance Renewals:

The insurance premium for the 2007/08 year was \$5,716.

The insurance premium for the 2009/10 year was \$7995.

The insurance premium for the 2010/11 year was \$15,583.

The insurance premium for the 2011/12 year was \$42,989.

When the premium was received for the 2011/12 year the only quote we could obtain was through [REDACTED].

[REDACTED] Unable to quote in Far North Queensland

[REDACTED] Unable to quote due to moratorium on all North Queensland business.

[REDACTED] Unable to quote for values of \$5 million

[REDACTED] No longer insuring any new business in Far North Queensland

[REDACTED] Do not insure in Far North Queensland.

The value insured was \$7,971,600 which was very similar to the quote received for [REDACTED]. This was received on the 16 May 2011 from the same company with the policy cost being \$44,529.

These two building were built a year apart by the same builder, with the units size, lay out and fittings and fixtures nearly identical.

When the renewal for [REDACTED] was received nine days later on the 24th May 2011 for \$63,311.67 I questioned this with the broker. They in turn questioned it with [REDACTED]. A new invoice was sent with the premium dropping to \$42,989.37 a drop of \$20,322.30.

Financial Impact:

When completing the budget forecasts for the owners and committee members, I had no choice but to increase the Administration Budget from \$47,625 up to \$78,780. This represents an increase of \$31,155 and of this the insurance increase was \$29,500.

The sinking fund contributions remained the same, however the levies for the Administration Fund had to rise from \$661 per lot entitlement up to \$1193. The **increase** per annum to the owners are:-

Bedsit Units - \$532.65

Two Bedroom Units - \$1065.31

As the levies are approved at the last AGM with two lots of pre issued levies for the new financial year. This means that the increases are compacted into just two quarters.

The pre issued levies were \$165.24 per lot entitlement, however for the second two quarters they increased to \$429.64 per lot entitlement. An owner for a two bedroom unit faced an increase of \$528.80 per quarter. This is something a lot of owners just couldn't budgeted on.

Summary:

We have seen increases of a significant nature each year in our levies for the past four years. At this stage we are not confident that this is the end of the increases, and must brace for more.

I am seeing more owners getting into financial difficulty and although I try to be as compassionate as possible, the Act states that if an owner becomes more than 2 years in arrears with their levies then the Committee must take action. This action is essentially to recover the debt, and this could mean the sale of the property via the Courts. This is the last resort, but at a point I have no choice legally than to go down this path.

In the 11 years I have been involved with body corporates I have never been faced with this. However, in the past year I have four owners at different buildings that are very close to this.

With rents falling, vacancy rates increasing and the length taken to find a new tenant this has all added to the financial burden. These factors alone could have been worked through, but with substantial increases in the body corporates this has pushed many over the edge.