

Submission to Parliamentary Inquiry

To: Inquiry into Strata Titled Insurance

From: Ramon and Linda Tuck

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Property:

[REDACTED]

[REDACTED]

[REDACTED]

Number of Units: 44 units in total

24 being bedsit units, 42 square metres in size – one lot entitlement

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

Constuction Date: Completed in 1995 to high cyclone rating code

Besser block with tin roof

Levies 2008/09: Administration Fund \$35,408 or \$553.25 per lot entitlement

Sinking Fund \$14,720 or \$230.00 per lot entitlement

Total: \$50,128 or \$783.25 per lot entitlement

Insurance: Premium to November 2008 - \$7,064.95

Building Valuation - [REDACTED]

Levies 2012/13: Administration Fund \$85,520 or \$1336.25 per lot entitlement

Sinking Fund \$0 or \$0 per lot entitlement

Total: \$85,520 or \$1336.25 per lot entitlement

It should be noted that there is a zero contribution to the sinking fund. When this returns to normal levels of \$14,000 this will add a further \$215 per lot entitlement.

Insurance: Premium to May 2012 - \$44,529

Building Valuation - [REDACTED]

Increase in Levies: Levies 2008/09 - Total: \$50,128 or \$783.25 per lot entitlement

Levies 2012/13 – Total: \$85,520 or \$1336.25 per lot entitlement

Increase in 4 years - \$553 per lot entitlement.

Assuming Sinking fund to return to \$14,000 per annum, this then increases are \$768 per annum for a bedsit, and \$1536 for a two bedroom unit. It will have doubled in this four year period.

Insurance Increases:

To highlight the effect the increases in insurance have had on this complex, I will break down what the insurance component was in 2008

Total Premium \$7,064

Bedsit \$110.37 per annum

Two Bedroom Unit \$220.75 per annum

The same equation using the premium received in 2011

Total Premium \$44,529

Bedsit \$695.76 per annum

Two Bedroom Unit \$1391.53 per annum

Analysis of Increases:

In the four year period, the actual cost increases per lot entitlement for the insurance has increased by \$695.76 per lot entitlement.

In the four year period, the actual cost increases to the owners per lot entitlement has been \$553.00.

The only way the increases have been limited is by reducing the sinking fund contributions. This is not sustainable, and next year the levy will need to return. This will again put pressure on the owners financially.

History of Claims:

This property has made very few claims in the past ten years I have been actively involved in it. There was a fire to a bedsit, but only superficial damage, and during TC Yasi we had damage to one gutter. Any other claims have been of a very minimal nature such as broken windows etc.

Building Valuation:

Legislation was brought in by the Queensland Government and each body corporate must get a valuation for insurance purposes every five years. We had one completed in January 2009 by [REDACTED] with the insurance value at [REDACTED].

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

Given we already own the land, the committee felt this was a figure that was unrealistic and spent more of the owners money to have another report completed by [REDACTED] in February 2009

This came in with a figure of [REDACTED] or for each bedsit unit [REDACTED] or for the two bedroom units [REDACTED].

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

Although the committee did not agree with this valuation, under the current legislation we had no choice but to insure for this value.

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 44 units in it. The surrounding complexes are of a similar design and number between 20 and 42 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:

After receiving the valuation for insurance purposes, the Committee had no choice but to increase the sum insured to \$7,817,461. This was prior to the insurance increases, and we sustained a doubling of our insurance budget by simply having to insure for this higher figure. The renewal dated 16th November 2009 was through [REDACTED] for \$12,227. Our insurance the previous year was \$7,064.

The comparison quotes were from [REDACTED] at \$15,297 and [REDACTED] for \$14,018

In late 2009 we were warned of increases to our insurance premiums. The renewal notice from [REDACTED] arrived in November 2010 for \$20,980. This is an increase of \$8753 per annum. The excess for this policy was \$200 per claim. The comparative quotes we received were from [REDACTED] for \$22,429 but with a \$5,000 named cyclone excess.

The committee at this stage tried to independently source quotes and obtained one from [REDACTED] for \$15,324 with a \$10,000 named cyclone excess.

Many owners were not comfortable with transferring to [REDACTED] as they are a B Grade insurer, and very little was known about this company or their financial ability to cover any claims. The decision was made to renew for a six month period only with [REDACTED] and investigate other options.

In May 2011 a renewal arrived from [REDACTED] for \$67,404 or an increase of \$46,424 from the renewal less than six months previously. The other options were just one [REDACTED] at \$44,529. [REDACTED] were unable to quote and [REDACTED] were unable to quote as the building is over \$5 million.

The body corporate owners now had an increase of yet another \$23,549.

Financial Impact:

As the Chairperson of the body corporate for [REDACTED], I recently had to do the budgets for 2011/12. In the previous budget, the administration fund had made allowances of \$23,000 for the annual premium for insurance. Although we did have 18 months of insurance paid out in the financial year, the total expenditure was \$55,000.

At the start of the year, we did have a budget surplus of \$20,015 in the administration fund, but after the extra insurance paid out, we ended up \$12,754 in deficit.

I had no choice but to increase the budget from \$52,710 to \$75,920. This

represents an increase of \$23,210. Of this \$22,000 was for insurance increases.

After some expenses that were allocated to the administration fund and should have been to the sinking were transferred, we still had a deficit to recover of \$8,800. We assumed we would collect the same amount of interest as last year, so we budgeted the deficit to be \$6600.

Our administration fund now has gone from \$52,710, up to \$85,520 with just about all of it due to insurance increases.

This complex does have a healthy sinking fund of \$42,109. For a complex of this size and age, this may sound like a good balance. We should repaint the building every 7 to 8 years. This is due to be repainted in the next 3 years. The costs for this have increased, and I anticipate that the building repainting will cost \$60,000.

To try and minimise any increases to owners, for this year only I have put forward that we make ZERO contributions to the sinking fund. We had already dropped the contributions from \$14,720 down to \$7,720 the previous year. The sinking fund should really have been added but with the owners already facing huge increases I just could not add more financial burden to them.

For this coming financial year, the levies payable by a bedsit unit are \$1289, which is an increase of \$345 per annum.

For the two bedroom units their levies will increase to \$2578, which is an increase of \$690 per annum.

In both cases, rental increases are just not possible currently so each owner will have to personally absorb these increases.

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.

As Chairperson, 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.

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 owners over the edge financially.