SUBMISSION NO. 152

From:	[redacted]
To:	Committee, SPLA (REPS);
Subject:	Submission to Inquiry - Stata Title Insurance
Date:	Monday, 16 January 2012 10:21:01 AM
Attachments:	Insurance.xlsx

[redacted]

To whom it may concern,

We have managed [redacted], located in Port Douglas, North Queensland since construction in 1998. The property consists of two Community Title Schemes: 35 titles under one and 19 titles under the other. All units are holiday let with no permanent owner/residents or long term tenants. All but two of the units are managed by our company on behalf of owners. We own two of the titles ourselves and a further 5 titles are in a family superannuation trust so a substantial amount of the insurances are borne by our business and ourselves.

In order to make this submission, we have reviewed building insurances over the past 8 years and attach summary of each schemes insurance costs. In essence - with the exception of a single year, where [redacted] provided insurance in 2009 for one of the buildings - we have seen consistent annual increases, with a fairly dramatic increase in the past 2 years. The summary below shows the annualised costs with more detailed explanation in the attached spread sheets.

YEAR	[redacted]	[redacted]
2011	$ 25,076.37	$ 26,925.92
2010	$ 17,487.83	$ 14,367.50
2009	$ 13,175.13	$ 6,718.53

2008	$ 10,941.51	$ 8,170.13
2007	$ 8,729.52	$ 6,516.50
2006	$ 7,000.11	$ 5,136.93
2005	$ 5,470.43	$ 4,937.20
2004	U/A	$ 4,858.86

In 2008, the GFC signalled the start of a difficult period for business in Port Douglas - which continues to date. A small recovery was seen in our income in 2010 but with the 'Summer of Natural Disasters' - flooding in the south of Queensland and Cyclone Yasi in North Queensland - any small gains were quickly wiped out. Compounding these difficult times have been increases in costs – labour, consumables, fuel, transport, food, linen, utilities – electricity in particular; topped off by considerable increases to Body Corporate insurances and levies.

With difficult economic times has come another reality: to remain competitive in the market place room rates have reduced. Unit owners who were already seeing loss of income due to reduced numbers of visitors to Port Douglas, were now also having to accept lower rates for letting their units. Reviews of returns for many owners have seen negative returns, particularly after Council rates and Body Corporate fees are deducted from gross earnings.

Port Douglas has a large number of 'investment properties' built during the boom-time of the 1990's and while this has lead to an oversupply in the market place of such properties, the challenge of filling all these beds has been left to on-site managers whose own business is linked to returns earned by the unit owners. As returns fall, yield lessens, funds to maintain properties become scarce and a downward cycle of neglect can occur, making it even harder for property managers to maintain higher room rates. Our management rights business has decreased in value, with profits substantially effected.

The other impact of falling returns, for our own business and investment units, is that with the fall in returns, so too have the assets devalued. Resale figures for Port Douglas properties show a significant adjustment to the sale price of these type of units. While some of these prices are a reflection of true market conditions – it is fair to say that some of the unit sale prices were well over inflated – poor net returns are forcing unit owners to relieve themselves of the burden of negative cash flow by selling at below purchase price – often by a noteworthy amount.

We have seen one unit in the complex sold by receivers, we have another with bank notice given to resume possession; we have witnessed resales and 'for sale' prices reflecting the difficulties some of these property owners are facing. While they are not all attributable to increases in insurances, this is certainly adding to the woes of a once thriving industry. Compounded with the difficulty of the banks releasing cash for purchase of these type of units, the market has taken a major pummelling and the prices once seen make take years to regain – if ever.

The buildings - constructed in 1998 and 2000 respectively, complying to modern building codes - have never been insured for flood and only in the past three was a cyclone component added; of a very modest amount. There has never been a major claim against either policy, and none for damage caused by natural disasters. In the 14 years we have managed the property, there has not been an event such as cyclone, fire, flood, or even a storm which has caused more damage than taking the TV aerial off the roof or overflowing the storm water drains around the property. We have had more damage from a dripping water pipe inside a wall than from any so called 'insurable events'.

An issue we do see as significant for the industry is the withdrawal of insurers from the market, with an across the board refusal to insure any property which has more than 15% of the titles 'property let'. Why holiday leased properties would deter insurers from providing cover is unclear. Particularly given that it is a legal requirement for the property manager/s to reside on site, and are therefore very proactive in respect of fire and safety regulations, cyclone preparation, pool safety and so forth. Due to the very nature of the properties, and the need to ensure public presentation to paying guests, maintenance of the buildings, gardens and public areas tends to be to a higher standard than many residential units where contractors might only be employed a few hours a week to attend to gardens and public areas.

In an effort to reduce the cost of insurances, one Body Corporate – for better or worse - has undertaken to reduce the value of the building insured by almost $3M. This practise is no doubt becoming very widespread and in the future, should a significant event occur in which a building needs to be replaced, insurance funds may not cover the rebuilding cost. This cost will be borne by the community as well as the individual owners.

We are hopeful the inquiry can shed some light on why there are so few insurers in the market, why a blanket set of rules and assumptions seem to apply to the whole state regardless of each regions remarkably different weather issues and most significantly how the insurance premiums could have escalated so drastically in the past few years, to levels which seem to have no bearing on claims made or events which have occurred.

Further information can be provide by the undersigned if required.

Yours sincerely,

Jenny White [redacted]

Shane Branch [redacted]

Directors, Hibiscus Resort & Spa
[redacted]