

**To: House of Representatives Standing Committee on Social Policy and Legal Affairs**

Kenneth John & Robyn Lynette Shepherd

████████████████████  
████████████████████  
Wednesday 11<sup>th</sup> January 2012  
████████████████████  
████████████████████

Dear Committee,

I am a 63 year old retired Royal Australian Air Force Officer and I receive a DFRDB pension each fortnight. My wife is a 60 year old retired ANZ Bank Manager who currently receives a Disability pension. In June 2011 my wife's Superannuation lump sum funded the purchase of ██████████ at ██████████. Even though we have only been here about six months my wife and I are extremely worried that the upward trend of the Body Corporate Fees, due to increasing Insurance costs, will force us to move sooner rather than later and this was to be our last move for quite some time. We are also very worried that the increasing fees will make recovering our purchase price impossible.

We have no real savings and no capacity to absorb much more than CPI increases. My wife is so worried that she is now actively seeking employment so that we can afford the Body Corporate Fee rise this year, even though she is in some pain from her artificial hip and would lose her disability pension as well as the benefits. However because of the depressed state of tourism in the area she is finding the going tough, no one wants to employ a 60 year old retired Bank Manager, the jobs are just not there.

**Background**

The ██████████ complex has 192 Units in total. ██████████ is one half of the ██████████ and consists of ██████████ in eight separate buildings arranged around a pool and gardens, and was stage 1 during construction in 1997. ██████████ consists of ██████████ in seven buildings arranged around their own pool and gardens, and was Stage 2 during construction, each half of the ██████████ has its own separate Body Corporate Committee. This is not an ideal situation however, this submission is only concerned with ██████████ i.e. ██████████ of which I am a Body Corporate Committee Member. I have no information about the costs or trends of ██████████

The entire complex has one on-site manager who manages all of the Time-Share units and most of the investment units. A small percentage (about 15%-20%) is owner occupied and an even smaller percentage (about 10%) is managed by local Real Estate Agents in Cairns. ██████████ Body Corporate Fees were a concern when we considered purchasing a unit because they are on the high side at \$4,052.00 pa, but it is a very nice complex and is well managed. It has beautiful gardens, two very nice pools, a tennis court, a gymnasium and the buildings are very solid being constructed from reinforced concrete and are in very good condition. We certainly did not foresee the kind of fee rises that are inevitable if nothing is done about the current situation.

As I mentioned we have only been here about six months and already there are signs that our biggest worry will be the rise in the cost of Insurance, and subsequently its effect on the Body Corporate Fees. Another committee member of our Body Corporate has charted the cost of Insurance which has seen it rise from about \$16,000 in 2005- 2006 to about \$97,000 for 2011-2012, which is extremely worrying. Not only will the Body Corporate fees rise to an unaffordable level, but we will not be able to sell as the investment potential will be severely affected. Who would want to buy a unit that has no chance of Capital Gains and Body Corporate Fees of \$6,000-\$8000 plus Council rates of \$2,000+ a year? A copy of the Insurance trend line is attached as Annex A.

### **Three Case Studies.**

Friends of ours [REDACTED] purchased [REDACTED] in the [REDACTED] [REDACTED] in 2004 for \$260,000 as an investment. After Cyclone Yasi they heard rumours about steep increases in the cost of Insurance and were worried that rising Body Corporate Fees would have an adverse effect on the saleability of all units in FNQ, so they decided to sell. The sale took twelve months and they resisted many offers of \$230,000 before finally accepting \$250,000 in December last year.

Another friend [REDACTED] sold her Unit due to the worrying trend in Body Corporate Fees. She purchased [REDACTED] in December 2007 for \$269,000 when the fees were \$2,300. She sold the unit for \$250,000 in April 2009 when the fees were \$3,700. She was prepared to take a loss on the sale because she knew she could not afford any future fee rises. [REDACTED] is now living at [REDACTED] in a house where she pays only Council Rates. She misses the complex especially the pool and her friends, but not the fees.

[REDACTED] a couple from [REDACTED] who have been friends of ours for many years stayed with us for ten days last August. They were so impressed with the complex that they expressed an interest in buying a unit, so that in about five years time when the farm became too hard to manage they would have somewhere to retire to. Keen golfers they even extended their stay by one day to inspect [REDACTED] which fronts onto the golf course. They talked about buying a golf buggy and planned to spend their retirement playing golf, swimming and taking trips around Queensland. However they would not commit until after the Annual General Meeting of the Body Corporate which was due in December, to see if the fees were going up and by how much. After updating them on the situation they have decided to wait a couple of years and stay on the farm paying only council Rates. They feel the units are very good value but having no control over the rises in Body corporate Fees is a major concern.

### **Conclusions.**

The main factor affecting the cost of Insurance is that there is not enough competition. Since 2009 large complexes such as ours have had only one Insurance company who is willing to quote. Cyclone Yasi did not cause much damage to this complex, but without competition Insurance Companies can just keep putting up the cost of insurance to offset their losses in other areas such as the damage caused by Yasi south of Cairns, and the Queensland floods. Something needs to be done now.

The depressed state of the Cairns tourist industry continues to have a negative effect on all Capital Growth in FNQ.

I don't know much about Insurance, but after being blown out of Darwin by Cyclone Tracey in 1974 I know a little about the destructive forces of cyclones. A direct hit by a large cyclone would not mean that any of the structures would need replacing. This is a very solid complex, we would lose some of the roofs off some of the buildings and we could have quite a bit of water damage but the structures would probably remain intact. It would take an earthquake to destroy these structures, the risk versus the premiums doesn't add up to me, but as I said I don't know much about Insurance.

It is very worrying when Investment in FNQ is stymied by inflated Insurance prices as well as a depressed tourism industry, we need more competition. We either need a State Insurance Office or approval for several overseas Insurance companies that would be willing to quote, which would have a stabilising effect on the industry and go some way to restoring investor confidence, otherwise we will all end up in unaffordable, unsaleable Units.

**Recommendation**

To stem excessive price rises and to force some competition into the Insurance industry, we need a State Government Insurance Office in FNQ.

Kenneth John & Robyn Lynette Shepherd

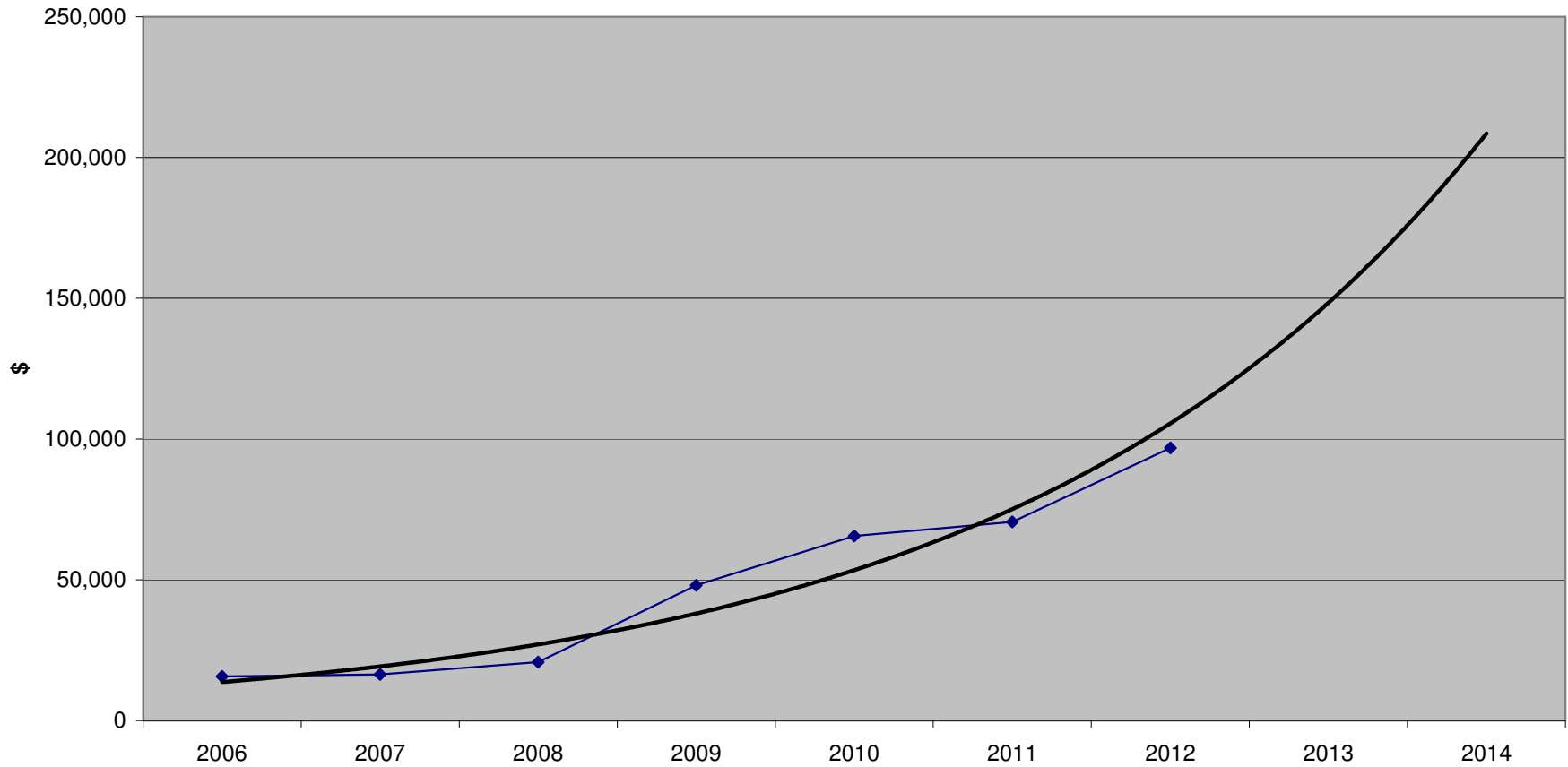
[REDACTED]

[REDACTED]

Attachment: Annex A Insurance Trends Chart



The trend line shows insurance costs will more than double over the next 2 years.  
Since 2009 there has only been one insurer willing to quote to insure the body corporate.



Note: the premium for the 9-month period from 30/12/11 to 30/09/12 has been adjusted from \$72,597 to \$96,796 to show the equivalent amount for a 12-month policy.