



QUEENSLAND AFFORDABLE HOUSING CONSORTIUM LTD

Outline of the Insurance Policy

Commercial in Confidence

This summary is for general information purposes only. Each owner will be provided with a full copy of the Insurance package and how QAHC will manage the claim process.

1) Full Compulsory Insurance

To provide a higher level of protection for the owners income stream, property and public liability, the Consortium has organized a compulsory AON insurance policy for the owners on all properties approved under NRAS through the Consortium. Owners pay for the Insurance and the Consortium administrates the policy.

This is a Group Insurance policy that has been specially developed for the Consortium by AON and Lumleys and is based on detailed risk management under the NRAS program.

2) Outline of the policy

- I. The policy will be held in the name of Queensland Affordable Housing Consortium Ltd with the Owner listed as an interested party. A certificate of currency can be issued in the owners name annually on request.
- II. Excess payments for Rental Default, Tenant Damage, Tenant Abandonment and Death of a Tenant claims will be paid by the Consortium
- III. QAHC will access the policy for the following items. This will help ensure a continuous income stream to owners in most circumstances
 - a. Rental Defaults
 - b. Tenant Damage
 - c. Tenant abandonment
 - d. Death of a Tenant
- IV. The owner will be responsible for accessing the policy for the following items:
 - a. Building and Content
 - b. Flood damage to contents
 - c. Public Liability
 - d. Plate Glass

Excess payments for - IV a-d above of \$100 per event are payable by the owner
- V. The Property Manager will take all reasonable steps to recover tenant liabilities through the Bond and/or other reasonable means. Amounts recovered will be repaid to AON as a partial refund on payments made to owners. This process is unique to the Consortium and ensures continued cash-flow to owners prior to recovery of tenant liabilities.

3) Outline of the main feature of the policy

I. Building

Building means the insured building described in the Schedule at the Situation, being a residential dwelling house, flat or home unit, including:

- a. all domestic outbuildings and any professional offices or surgeries and their fixtures and fittings, including boat sheds, jetties, garages, outbuildings, lifts and inclinators, (in all instances, the Policy excludes your legal liability under Section 6 – Liability Cover for lifts and inclinators),

- b. fixed coverings to walls, floors and ceilings, (carpets, internal blinds and curtains are excluded, except where the Situation is tenanted under a Lease on an unfurnished basis),
- c. services (whether underground or not) including communication installations, electricity and water, and
- d. all domestic structural improvements including fixed swimming pools and spas, saunas, tennis courts, paving, paths, driveways, walls, retaining walls, gates, fences, masts, aerials, clothes lines, exterior blinds and awnings.

II. Content

Definition of Contents and specified limits - Contents means your:

- a. carpets, internal blinds and curtains, except where covered under Section 1 – Building Cover,
- b. swimming pools and spas not permanently fixed,
- c. furniture, furnishings and household goods that are not built in,
- d. fixtures and domestic structural improvements inside a Strata Title unit that are not insured by the Body Corporate, when the Contents Sum Insured is not otherwise exhausted,
- e. fine art, paintings, antiques and curios and other bona fide works of art up to \$1,000 any one article up to a maximum 5% of the Contents Sum Insured for any one claim, unless separately
- f. specified in the Schedule as Specified Contents,
- g. portable domestic appliances that are not built in.

III. Flood Damage

- a. Buildings are not cover by flood damage but are covered for storm and water damage
- b. “Flood” means the inundation of normally dry land by water escaping or being released form the normal confines of any natural water course, lake, reservoir, canal or dam.

IV. Flood damage to contents

- a. Insurance will cover loss or damage to your Contents, excluding swimming pools and spas, caused by Flood up to a maximum of \$10,000 or 5% of the Contents Sum Insured, whichever is less. This clause operates notwithstanding the provisions of General Exclusions 7.16.
- b. General Exclusions 7.16 - loss or damage or liability caused by or in connection with your failure to use all reasonable means to protect and maintain the Building and/or Contents before, at, or after the time of any loss or damage.

V. Public Liability

- a. \$20,000,000

VI. Plate Glass

- a. This claim is directly accessed by the Owner. There are no limits to claims in any year, but a \$100 excess on every claim is payable by the owner

VII. Rental Default

Insurance will cover you for rent default if your Tenant:-

- a. vacates the Situation leaving the premises unfit for occupation for at least 7 days when caused as a direct result of a Deliberate or Intentional Act to the Building and/or Contents. Deliberate or Intentional Act means larceny, theft, Malicious Damage or Vandalism,
- b. vacates the Situation without notice before the expiration date of the Lease,
- c. defaults in paying rent owed at the Situation under the terms of the Lease to you or your rental agents, or
- d. is legally evicted from the Situation.

VIII. Additional benefits and limitations

Legal expenses

- a. When the Insurance agrees to pay legal expenses before they are incurred, it will also cover the legal expenses for you or the Property Manager to legally evict your Tenant and/or to recover any amount payable by the Tenant for damage caused by Tenants and/or rent default to you, up to a maximum of \$5,000 for any one claim.
- b. It is necessary for you and your Property Manager to use all reasonable means to minimise any loss or damage.

IX. Loss of Rent

- a. 10% of Building or 12 months cover in the event that the property is completely destroyed by an insurable event.
- b. Also covers the property when a malicious damage occurs and the property is unable to be tenanted due to damage and repairs. Cover up to 15 weeks. See above in rental default for actual wording.

X. Death of a Tenant

- a. "Where there is only one Tenant named on the Lease, and that Tenant dies during the term of the Lease we will also pay you the weekly rent payable under the Lease from the date that you received the last rent payment from the Tenant or from the Tenant's estate. The most we will pay during any one Period of Insurance is 15 weeks rent up to the amount shown in your Schedule for this cover. Any claim under Section 4.3 (b) Death of the Tenant will cease when the Situation is re-tenanted. "
- b. Insurance will pay the clean up and fumigation costs incurred by you with our prior agreement, where following the death of a Tenant at the Situation the Building is unfit for human occupation, unless otherwise excluded. Payment is limited to a maximum of \$2,000 for anyone claim.

XI. Other Details

- a. The insurance will be issued one a year for all properties. The policy will be issued 4-8 weeks prior to the due date. It will be proportionate for owners that come on late in the year. The owner will need to pay the policy 2 weeks in advance of the agreed commencement date.

4) Exemptions – Body Corporate – Partial Compulsory Insurance

When properties are under a Body Corporate structure, then the Body Corporate is responsible for organizing it's own Building insurance. However the owner will still be required to take out a form of Compulsory insurance with the Consortium that covers the following:

- I. Rental Default – limit 15 weeks includes 4 different types of occurrences
- II. Damage caused by tenants including Malicious Damage – includes accidental loss and damage
- III. Content
- IV. Public Liability \$20,000,000
- V. The insurance will be payable once a year for all properties. The policy will be issued 4-8 weeks prior to the due date. It will be proportionate for owners that come on late in the year. The owner will need to pay the policy 2 weeks in advance.
- VI. The Body Corporate will be responsible for providing the Consortium with a copy of it's Certificate of Currency annually and the extent of its cover.

5) Other Associated Matters

I. Tenancy vacancies

Owners of rented property will know that vacancy risk cannot be insured. The Insurance industry sees vacancy risk as a 'normal commercial risk'

However, in order to provide a higher level of income security for NRAS owners, QAHC and AON have undertaken a full analysis of vacancy risk under NRAS and the Consortium has adopted the following approach.

- a. Insure against all the 'bad' events that lead to vacancies. [Arrears, Abandonment, Tenant Damage & Lawful Eviction]. This leaves only normal vacancies to manage in order to protect income streams.
- b. Demand is strong. The Government has stated that 1.5 million Australian Households are eligible for NRAS
- c. Eligible households will be attracted by the discounted rent and opportunity to rent a new, well located dwelling.
- d. We have thoroughly assessed risk factors like 'Expected Demand' and Allocations
- e. We will select property of the right type in good locations for our NRAS submissions
- f. We will encourage the take up of longer term tenancies [We are offering 5, 3 and 1 year leases with a housing management target focused on 3 and 5 year leases]
- g. Ensure Property Managers have a performance based approach to managing turn-over, including pre-allocation of stock.
- h. With this in place, the Property Managers will carry the risk and costs of a normal vacancy rate of up to two weeks in any individual tenancy period [1,3 or 5 years]. Please check the Head Lease and Property Management Agreement for the details of this coverage.
- i. This coverage will not be automatic where the owner requires a 'restricted' tenant group. E.g. Only Students or only the Aged etc or in cases of investment in particular locations that have distinct market conditions e.g. a Mining Town. These are normal commercial risks and reflect investment choices. In these cases the Consortium will negotiate individual arrangements with the owner
- j. In the event that a non insurable event of repairs and maintenance occurs that is the Landlord's responsibility, and these repairs & maintenance delay the re-letting of the property then the vacancy coverage will not come into effect until the repairs and maintenance work are complete.
- k. Property Managers will be pro-active in ensuring owners are informed of changes to demand. Long term market conditions are a normal commercial risk.

II. Valuation for property insurance and valuation of market rent

Owners are required to pay for independent valuation of market rents in years 1 and at the end of years 4 and 7. This will be provided and managed as an independent Group Service through the Consortium in order to meet NRAS Compliance requirements in a timely and professional manner.

The Consortium has negotiated a cost effective valuation service from AON. All owners will receive a full copy of the valuation credentials and processes upon NRAS approval. All property is inspected by a qualified professional for valuation purposes. Fees are discounted and capped for multiple dwellings in a single location.

The valuation service will provide property insurance valuation data and the independent market rental appraisal in a single package. The Consortium will report this to the Commonwealth to meet compliance requirements.

III. Disaster Situations

- a. Insurance covers buildings becoming uninhabitable due to insured events. eg. Disaster situations - If there is a cyclone and the property is uninhabitable (can be up to six months as in the case of Innisfail), AON will make progress payments directly to owners while the building is being repaired – this includes **property repair and loss of rent**. This is set out in the Insurance Policy and replaces any QAHC liabilities during the 'make-good' period.

- b. Owners should note that the NRAS Incentive stops if a dwelling is not occupied by a tenant after being vacant for 13 weeks. The owner has the option to continue with the 10 year lease if they replace the property within 2 years. The Consortium will assist the Owner to consider all their options and will ensure the Government is notified in such a situation.

6) Site Improvements, building defects, negligence

I. Site Improvements

All improvements need to be notified to the consortium immediately to be cover under the insurance.

Site improvements can include:

- a. Awnings
- b. Water Tanks
- c. Pergola's
- d. Solar Hot Water Systems

II. Building Defects

Any building defects or faulty workmanship is the responsibility of the owner and not covered under this insurance policy.

III. Negligence

QAHC is not responsible for any act of negligence caused by the tenant and each party [owner, consortium and Property Manager] shall ensure they maintain adequate public liability insurance.

General Information Disclaimer.

All reasonable effort has been made to provide an accurate general summary of key Insurance and tenancy management issues. This information is provided as a general outline to help inform potential NRAS investors of the nature of the Consortiums proposed arrangements.

This information does not represent advice to any person nor does it constitute a contract between the Consortium and any party. Please read the Insurance Policy and Head Lease and seek independent advice.