



Insurance Valuations in Strata & the Building Sum Insured

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LookUpStrata

The Building Sum

Contents vs Strata Policy

The Building Sum Insured vs Market Value

Construction Market & Risks

Internal Lot Renovations

Averaging Clause Case Study and more...



Policy – The Building Sum Insured

- Important to understand your policy and the components within
- Building sum inclusions
- Risks for new developments
- Review periods and automatic indexation
- Bushfire zones, flood zones, heritage listings, development zoning, heritage listing etc.

Estimated construction cost as at 23 October 2023:	\$ 2,622,600
Estimated cost of removing remaining structure and debris:	\$ 150,400
Allowance for cost escalation during assessment prior to demolition period (3 months):	\$ 41,500
Allowance for cost escalation during re-documentation prior to commencement of construction (9 months):	\$ 119,700
Estimated design and supervision fees assuming new design (10.0%):	\$ 262,200
Allowance for cost escalation to 23 October 2024:	\$ 191,700
Total	\$3,388,100* EX GST
 Add GST	 \$ 338,810
Total	\$3,726,910* INC GST



POLICY LIMITS / SUMS INSURED

PART A	1. Building	\$1,485,044
	Common Area Contents	\$14,850
	2. Terrorism Cover under Section 1 Part A2	Applies
PART B	Loss of Rent/Temporary Accommodation	\$222,756
	2. Floating Floors	Included
Liability		\$20,000,000
Voluntary Workers		\$200,000/\$2,000
Fidelity Guarantee		\$100,000
Office Bearers' Liability		\$1,000,000
Catastrophe		\$222,757
PART A - Government Audit Costs - Professional Fees		\$25,000
PART B - Appeal Expenses		\$100,000

Policy – Contents vs Strata Policy

- Common area contents vs building sum insured vs lot owner contents
- Common misconceptions – carpets (removable floor finishes), air conditioning
- Lean on your broker and strata manager

POLICY LIMITS / SUMS INSURED

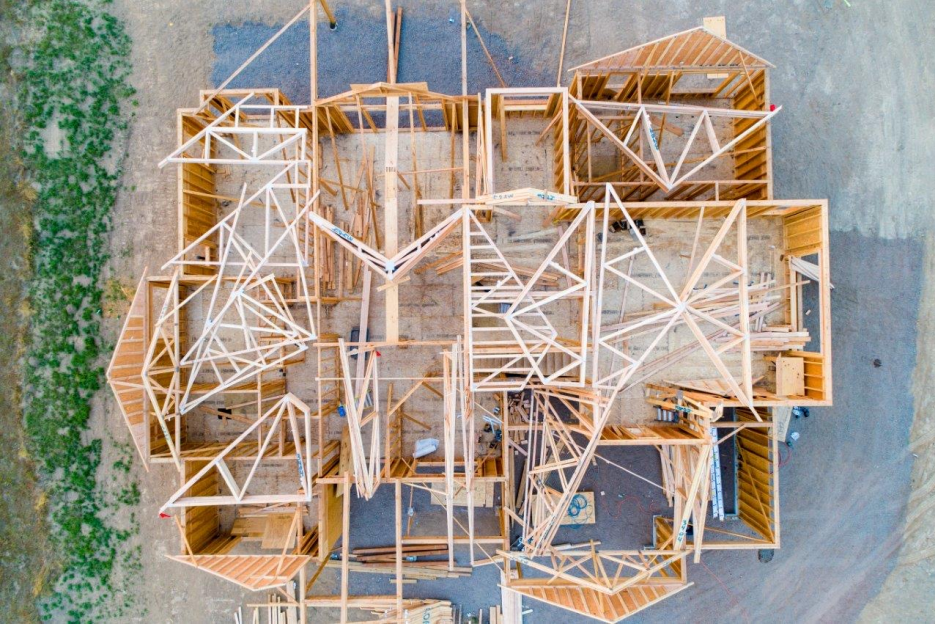
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PART C - Legal Defence Expenses		\$50,000



The Building Sum Insured vs Market Value

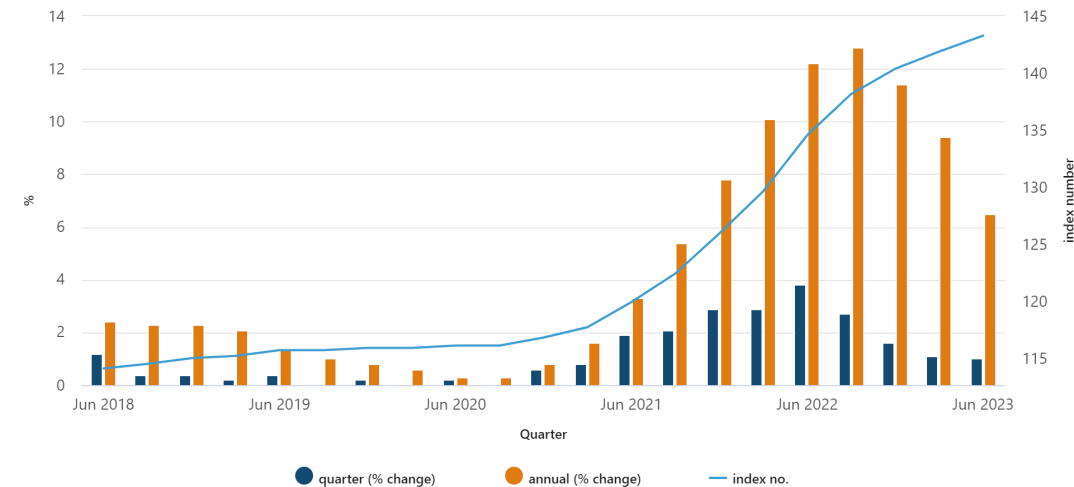
- Very common misconception resulting in a lot of unnecessary increased premium payments
- Insurance value can be substantially different to the value of property on the open market
- Insurance value could be higher or lower than market value
- Quantity Surveyors vs Property Valuers
- Indemnity



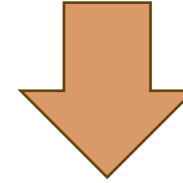


Construction Market & Risks to BSI

- Construction prices have increased exponentially since COVID-19
- High fuel prices and increased electricity costs
- Timber Issues (Plantation shortage, 250,000 house frames short by 2035, Russia supply taxes, elevated demand worldwide)
- Iron Ore and Steel (previous China lockdowns, Russia and Ukraine are 13% of world's steel trade)
- Skills shortage, thin margins
- Variably priced contracts (rise and fall clauses)
- Not all doom and gloom, prices are easing, supply chains are improving and demand is decreasing
- Direct relation to the building sum insured



Internal Lot Renovations and the BSI



- Old for new
- Improvements approved by the Body Corporate / Owner's Corp / Strata Company which effect the BSI on the Strata Policy
- Again very important to understand what is under the strata policy and what is covered under Lot Owner's contents policy

Lot no.	Unit No.	Base Construction Cost (EX GST)	Improvements (EX GST)	Construction Cost (EX GST)	GST	Construction Cost (INC GST)
1	133	174,282	11,394	185,676	18,568	204,243
2	134	251,740	7,121	258,861	25,886	284,747
3	135	213,011	14,243	227,253	22,725	249,979
4	136	213,011	10,445	223,455	22,346	245,801
5	137	174,282	42,901	217,183	21,718	238,901
6	138	174,282	34,973	209,255	20,926	230,181
7	139	251,740	14,243	265,982	26,598	292,581
8	140	174,282	30,226	204,508	20,451	224,958
9	141	174,282	27,852	202,134	20,213	222,347
10	142	251,740	8,546	260,285	26,029	286,314



Case Study: ‘Averaging’ / ‘Co-Insurance’ / ‘Underinsurance’

- A high end complex of 50 apartments were subject to significant damage due to a tropical cyclone. The damage was so significant a lot of the apartments were reduced to a shell.
- The property was, at the time, insured for \$48.7M. This was the original price of construction when it was built. This amount was put forward by the Developer and accepted by the Body Corporate Committee and Insurance Broker.
- As a matter of fact, the building should have been insured for \$59.2M which included; construction, escalation, demolition, removal of debris, re-design and documentation. Essentially only 82.2% of the property was insured.
- The bill to re-construct the property came in around \$22.5M. As the insurance policy included the standard ‘averaging clause’ the Insurer was only subject to cover 82.2% or \$18.5M of the \$22.5M construction bill. The Owners of the apartments then had to raise \$4M to be able to re-construct the property back to its former glory.

Denied insurance due to water ingress / high claim history?

- Audit via licensed building inspectors
- Roof inspections via CASA licensed drone operators
- Proposed schedule of repairs





Thank you

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