PROPERTY VALUATIONS EXPLAINED

In all States and Territories, a strata scheme must insure a building for its full replacement value and keep building valuations up to date.

An accurate valuation and appropriate sum insured reassures underwriters they're getting adequate premiums to fund their losses and avoids additional increases to compensate for perceived underinsurance.

What is a building valuation?

A building valuation focuses on the cost of replacement, not the current market value.

A qualified and skilled valuer assesses the cost of replacing the building using their knowledge of the industry and construction guidelines. They look at the construction and quality of the existing property and assess the cost and time to replace it "as new".

Never underestimate the importance of having a suitable insurance policy with adequate insurable limits, such as the building sum insured.

How replacement value is different to market value

A market value represents how much a building is worth to buy. It's based on what's happening in the current property market and includes the sales price of comparable properties.

A replacement value looks at a range of different factors involved in replacing all, or part, of a building if it's damaged. This includes the following.

- Demolition and removal of debris costs
- Building design, including any specific requirements
- Replacement cost of the buildings and common areas
- Professional fees, such as architects, surveyors and engineers, as well as the services infrastructure, roads, bridges, causeways and any physical infrastructure.
- Government fees and taxes
- Inflationary provisions for the duration of the valuation period

An accurate valuation means you can be confident a building is insured for the correct replacement value or Building Sum Insured. Remember also to consider the cover you require for Legal Liability, Office Bearers Liability, Machinery Breakdown and Common Contents.

BCB
Strata Insurance Brokers

Valuations offer certainty

Cover the cost of building materials and trade skills

Construction costs don't typically keep in line with inflation. Changes in labour and materials costs pose a serious risk of underinsurance for strata schemes, and owners would be jointly responsible for any shortfall if a major claim occurred.

Considers bespoke design features

Design features matter. It isn't just about bricks and mortar. The cost to replace open balconies compared to enclosed common hallways, or lifts rather than stairs, makes a significant difference to the cost of rebuilding.

Includes professional fees

Additional factors such as demolition costs, excavation, removal of debris, architect and engineers' fees, council permits and landscaping add up so need to be included.

Adhere to current building codes

Regardless of when a property was originally built, any new construction must meet current building and environmental codes, which may cost more.

Are new buildings any different?

For owners in a newly built strata complex, insurance can often be overlooked as they settle into a new community.

Generally, the initial insurance cover meets the basic requirements, such as the build value and minimum public liability cover.

However, over time, it's important to keep up with the real cost of replacing the property in the event of a major or total loss. It's the strata scheme's responsibility to obtain a property valuation that reflects the accurate insurance replacement value and to instruct the broker to adjust the insurance policy cover, where necessary.

To find out more about insurance valuations and how BCB can help you navigate strata insurance, please contact your local BCB office.

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Please contact your nearest BCB office for any queries or advice.

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