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YOU MIGHT BE UNDER INSURED WITHOUT EVEN REALISING

Whether it was the cost of steel increasing by as much as 40% or the inability to get trades and labour for 9 months, the construction industry absolutely crippled last year. Not only did it threaten the 1.1 million Aussies working in construction, it put at risk hundreds of thousands of already existing buildings by indirect consequence. As many as 80% of buildings could be under insured which poses an imminent risk to your strata schemes. Have you considered what value your buildings are insured for and if they could truly be rebuilt for that price if the worst happened tomorrow?

If you haven't had a valuation in the last 12 months, the current construction climate makes it imperative that buildings are insured to their most accurate value. Your 60 lot strata scheme with an average insurance value of $50 million could fall $20 million short if costs have surpassed the prior valuation by 40% in this current market. Who is left to foot that bill?

WHERE DID CONSTRUCTION COSTS START IN 2021 AND WHERE ARE THEY IN 2023?

Take steel beams for example, a very common element in most strata buildings in both a structural capacity as well as aesthetically with balustrades, windows, garage doors etc. In 2021 the price averaged approx. $5750 per tonne of steel. As of 2023 the cost for the exact same item has risen to $7750 per tonne which is a 34.8 % increase in just over 18 months. The impact of this is phenomenal and it is no wonder we have seen dozens of building companies collapse.

Concrete is another vital element in most strata schemes. As a product it serves a myriad of purposes within a building from walls, footings and slabs. Even partial destruction of a strata scheme would result in huge amounts of concrete works required. In 2021, basic 20mPa concrete was $130 per cubic metre. At the beginning of 2023, it is now $175 per cubic metre resulting in an increase of 34.6% for even the most basic concrete metric, and that is before labour is factored.

Continue over the page...

This phenomenon of cost escalation is not only relevant to new strata schemes. All the old 1970s - 1980s red brick unit complexes could be most vulnerable to under insurance. Basic clay bricks have increased significantly in price from $640 per thousand in 2021 to $867 per thousand in 2023, creating a cost increase of 35.5%. Often these older buildings are the schemes that have not had a recent insurance valuation for ten or more years!

A secondary factor is that labour costs have also increased by more than 10% over the last few years and the finite number of skilled workers has been stretched thin due to a greater demand for services across construction and renovation markets. This now puts Australia as the fourth most costly region in the world for construction labour, according to the IMCS.

You can now see that meeting the most important legal requirement of strata is near impossible without regular insurance valuations. Year to year, some schemes could be under insured by millions of dollars without even realising. Without frequent and current valuations for your schemes, it is easy to see how as many as 80% could be failing this duty and falling short on coverage.

HOW MANY OF YOUR BUILDINGS COULD BE UNDERINSURED?

At the end of 2021 an Insurance Council of Australia survey found, almost 80% of all homeowners were concerned that their residence was underinsured in the current market. Similarly, the Australian Securities & Investments Commission (ASIC) states that up to 80% of homeowners are not fully insured. That is 4 in 5 owners! Rule number one of strata is to always be fully insured!

Since 2021, the cost of construction has skyrocketed resulting in numerous construction firms going bankrupt and projects sitting idle for months.

A combination of crippled supply chains, inflation, government stimulus and reduced labour force have all contributed to the incredible price rises we are seeing. An overzealous demand misaligned with a struggling supply chain network is wreaking havoc across the industry.

No doubt you will have noticed this with even the simplest of work orders to trades. Many clients are advising painters, roofers and even landscapers cannot commence a remedial project for 3 to 6 months due to heightened demand and a shortage of products and labour. We have even seen personally that quoted works triple in cost in a matter of weeks with most trade quotes valid for less that a fortnight at the moment.

In a portfolio of 100 buildings, according to the ASIC statistics, as many as 80 of them could be underinsured if they have not had an insurance valuation in the last year. Even a valuation done at the end of 2021 will not suffice given that many building materials rose another 20% in 2022 alone.

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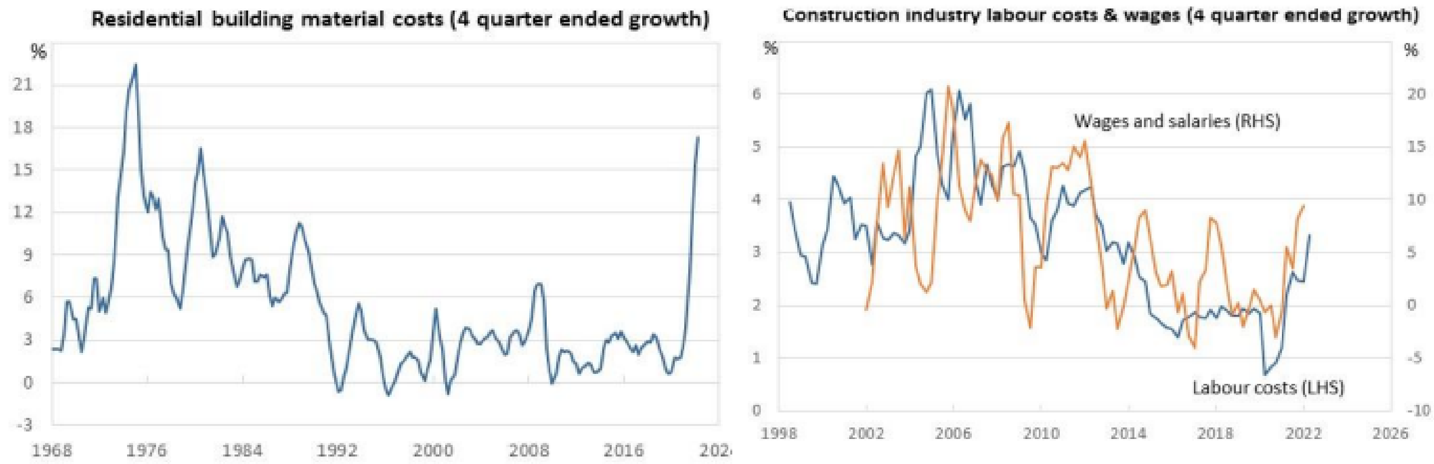
Figure 1: Building material and labour cost inflation



Source: ABS. Labour costs are measured as total hourly rate of pay excluding bonuses

Due to the circumstances of our industry, Solutions In Engineering (SIE) onboarded six additional valuers throughout the last 18 months to meet this high demand. Since 2021 SIE has completed more than 3700 insurance valuations to ensure your buildings are correctly and fully insured. With this we have noticed that many buildings needed to increase their building sum insured (BSI) by 30% or more.

PROFESSIONAL STANDARDS SCHEME APIV

Solutions in Engineering have also recently joined the APIV Professional Standards Scheme, the benchmark of industry professionals. This scheme is designed as recognition and liability limiting for only the highest level of professional valuation firms operating in this space.

We did this so that you as our client would rest assured that all our valuers operate to the highest standard required by this professional scheme. We have also implemented a peer reviewing system to ensure even further accuracy of valuations during a time when construction costs are so volatile. We wanted you to have 100% confidence in the valuation amounts your clients adopt, so for us it was worth the additional resourcing!

We all hope that construction costs will stabilise over the next few years, but you really cannot bank on this in the meantime. Leaving your schemes insured for the values adopted prior to the pandemic is a very risky gamble. With an increase of electric vehicles starting lithium fuelled fires and climate related disasters such as flooding and bushfires, we are unfortunately more likely than ever to experience a large insurable event. Those left underinsured are going to be liable for the millions in excess funding needed to rebuild after a disaster.

If you are concerned you may have an under insured scheme in your portfolio, contact our team for a quote for an updated insurance valuation on 1300 136 036.

SOLUTIONS IN ENGINEERING

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