



Institute of Strata Title
Management Ltd

Media Release

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Apartment owners at risk of underinsurance

Apartment owners in NSW are being reminded to check that their building insurance covers the total cost of rebuilding should a disaster occur. The Institute of Strata Title Management (ISTM) and CHU, Australia's leading strata insurance company, warned that most policy holders won't find out they are underinsured until it's too late.

ISTM President, David Ferguson, said that while building insurance is compulsory for all apartments in NSW, underinsurance rather than non insurance was a major issue and potentially a costly oversight.

"Many people won't realise they are underinsured until they have to face a total loss situation and by then there is nothing they can do other than pay for the shortfall," Mr Ferguson said.

"One contributor to the problem of underinsurance is the ever increasing costs of rebuilding."

According to Cordell's, Housing Price Index (CHIP), construction costs in NSW increase at almost twice the rate of Consumer Price Index (CPI).

For apartment owners who haven't reviewed their policy and updated their valuations for some time, restoring their apartments after a disaster could quickly turn into a nightmare.

"Following the aftermath of a catastrophe, high demand for skilled tradesmen will result in a labour shortage with construction costs spiking well above the norm," said Mr Ferguson.

Another factor to consider is the failure by many apartment owners to notify their Owners Corporation of major renovations such as new kitchens or bathrooms. They then can end up in the situation where the strata insurance falls short of the real 'full replacement value'."

John McGregor, NSW Manager, CHU said that the legal obligation to have insurance is only half the story.

"Having adequate insurance means peace of mind. Every Owners Corporation is responsible for covering the cost of rebuilding their apartment block. If the cost of rebuilding is not completely covered by insurance, lot owners must make up this shortfall from their personal assets," he said.



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“The law requires that buildings are insured for their full replacement value and for at least the amount of the last valuation. These amounts are not always the same because hidden costs and assumptions used in valuations can vary. For instance, it is not uncommon to see an allowance of 18 months in valuations to cover the rise and fall in building costs. Experience shows to fully reinstate a building back to a fully functional state can be nearer two or three years.”

Mr Ferguson said that apartment owners who aren't sure when their policy was last reviewed should ask their strata manager to check and if it has been at least two years they should get a new valuation done.

“Apartment owners should always let their strata managers or insurers know of any improvements and any other factors that may affect their levels of insurance,” he said.

“In times of crisis the last thing you need is to find out that your ten story apartment building is only insured for the cost of rebuilding eight floors.”

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About the ISTM

The Institute of Strata Title Management (ISTM) is the peak industry body for strata title management in New South Wales; promoting the role of the professional strata team and the value such a team adds to owners corporations in managing risk and a creating a harmonious strata living experience.

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