

# State of the Strata Market 2023



Like many other industries, the strata industry has been hit by the perfect storm. Rising inflation, supply chain issues, catastrophic weather events, scarcity of materials and labour shortages to name a few challenges the industry has been facing over the past few years.

Key factors affecting the strata market in 2023 include:

### Increase in Building Costs (Inflation)

The current shortage of building contractors and high demand for materials are driving the significant inflation in construction costs and are outpacing CPI.

Sums insured are not keeping pace with the increasing CPI% and are certainly not keeping up with the cost of construction, which would be necessary to cover the full replacement cost of your strata property.

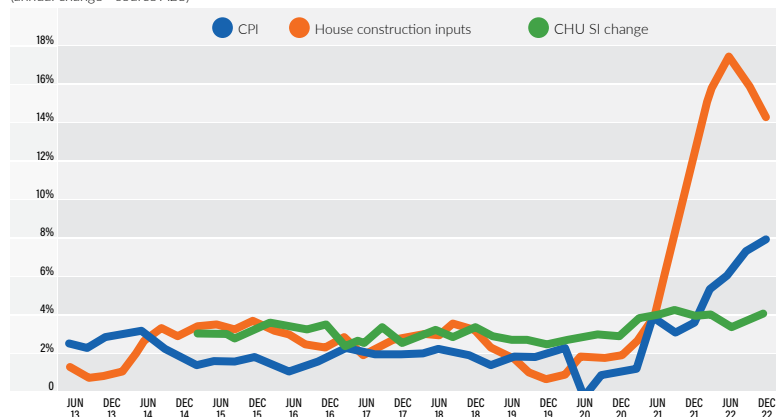
This is leading to an increased risk of underinsurance. If your building has not been valued in the past 12 months, there is a likelihood it's underinsured.

### Increase in Catastrophic Weather Events

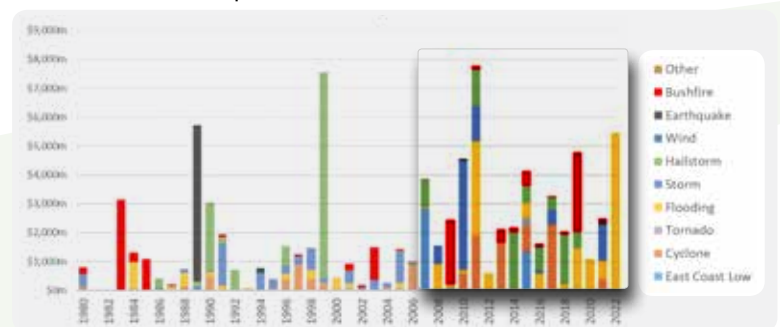
Australia has experienced several La Niña events in recent years, which have had significant impacts on the country's weather patterns. The most recent La Niña event occurred in 2020- 2021 and was one of the strongest in decades. During this "perfect storm," CHU received 2,527 new claims from body corporate managers in less than three months due to the Southeast Queensland/Northern NSW flooding and storms.

This flooding event is one of the largest insurance claims events in Australian history with the Insurance council of Australia estimated the cost of claims incurred to exceed 5.7billion.

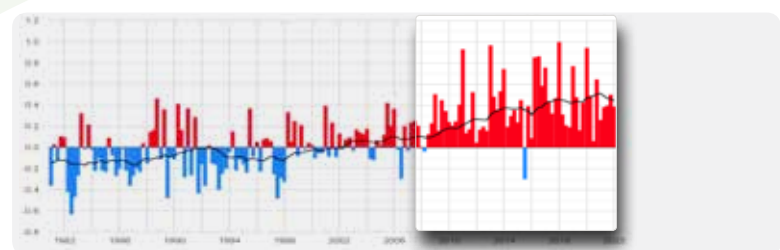
**Building cost inflation vs CPI vs Sum Insured changes at CHU**  
(annual change - source ABS)



**Australian natural catastrophe claims cost in 2022 values**



**Australian Actuaries Climate Index**





**Policy level factors**

Underwriters utilise various high quality data, systems and processes to assess risks and provide more accurate pricing. There are numerous factors affecting premiums including:

 CLADDING/ ACP	 DEFECTS	 HAZARDS
 CLAIMS HISTORY	 LOCATION	 OCCUPANCY

**Increase in Reinsurance Costs**

Reinsurance is insurance for insurance companies, because no single insurer is able to deal with the potential losses on their own should a significant catastrophe occur. It is also a requirement of APRA for insurers to obtain reinsurance.



Reinsurance smooths these low frequency, high severity catastrophic events into being a smoother, smaller cost each year that customers bear. Reinsurance is highly cyclical which means capital gets invested into the market and Australian risks are sought after by the global reinsurers and competition drives prices down and at some point, that becomes unsustainable and spikes back up again. That spike back up is triggered by big events like a flood.

After a spate of devastating bushfires and floods, reinsurers are looking at Australia in a different light and it will influence premiums which is ultimately passed onto the customer.

**What can Strata Owners\* do?**

- **Pro-active steps to manage defects: Take small steps more often. Prevention is better than cure.**
- **Building quality maintained: Timely action to deal with ageing, wear and tear.**
- **Full disclosure of claims, defects, works and repairs to the insurer: You have a duty to not mis-represent to avoid declines and claim delays.**
- **Fully insured: obtain correct and up to date valuations from a qualified professional to account for recent inflation and avoid the risk of underinsurance.**

**It is important for strata property owners to stay informed about the state of the market and take proactive steps to protect their investments.**

\*Strata Owners includes: Owners Corporation, Body Corporate, Strata Company, Strata Corporation

[chu.com.au](http://chu.com.au)

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