

# ASSET REPLACEMENT COSTS SKYROCKET

Replacement values for assets can alter dramatically from year to year. If you have not had your building, plant and contents assets valued in the past 12 months your business could be underinsuring these assets.

## IS YOUR COMMERCIAL PROPERTY INSURED FOR ITS TRUE REPLACEMENT COST?

Rising construction costs have had a significant impact on the insurable replacement values for building assets. These costs have been escalating over the last ten years and have increased exponentially in the last twelve months.

Steel work costs have risen by 20 to 50 per cent and reinforced concrete by an average of 18 per cent. The cost of labour has also risen by 12 to 15 per cent nationally and more in Western Australia and Queensland on the back of the commodities boom.

This has had a significant impact on construction costs which have risen across Australia by an average of 30 per cent in the past 4 years, and over 50 per cent in WA.

By comparison inflation over this period has been just 13.7 per cent. Therefore adding CPI onto last years sums insured will potentially leave your business underinsured.

Another approach used by many organisations is to base insurance values, on movements in market values. This invariably leads to significant underinsurance, particularly in the prevailing environment where market values in many property sectors are stagnating or even falling.

## WHAT IS THE IMPACT ON THE REPLACEMENT COSTS OF PLANT AND EQUIPMENT?

The replacement cost of plant, particularly if sourced from overseas against the US dollar has also experienced a sharp increase in replacement values. The Australian dollar has dropped sharply and as a result some plant values have risen by 25% in the last 4 months. The ability to source the replacement asset can also have a dramatic effect on replacement values.

## HAS YOUR PROPERTY, PLANT AND EQUIPMENT BEEN VALUED FOR INSURANCE IN THE PAST 12 MONTHS?

A structured valuation plan is critical to ensure that the level of cover is adequate and that the policy will respond correctly in the event of a loss.

Aon's valuation team can provide you with a valuation specifically developed to determine the replacement value of your assets for insurance purposes. An Aon valuation takes into consideration the various elements that impact on rebuilding and replacement costs including:

- construction or replacement costs
- labour costs
- rebuilding timeframes
- removal of debris
- cost inflation during the rebuilding period
- design costs
- costs associated with the building approval process
- currency fluctuations

### AVERAGE CONSTRUCTION PRICE INCREASES OVER FOUR YEARS TO DECEMBER 2007

New South Wales	18-23%
Queensland	34-37%
Victoria	19-22%
South Australia	28-31%
Western Australia	48-52%

Source: Australian institute of quantity surveyors

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