

EMERGENCY ACCOMMODATION & LOR: STRATA'S 'ADDITIONAL & SPECIAL BENEFITS

Compensation for temporary accommodation and loss of rent are two key special benefits offered by most leading strata policies, however, they are both often misunderstood by unit owners and strata managers.

To assist owners and managers in making more informed decisions around temporary accommodation and loss of rent, this article steps through the key features, benefits, and limitations attached to each type of cover.

STRATA INSURANCE – BACK TO BASICS

Strata insurance is a legal requirement for body corporates across Australia, with each State's legislation stipulating a minimum level of reinstatement and replacement insurance for the building and common contents. In recognition of the broad risks that body corporates and unit owners are exposed to, most leading strata insurers offer 'broad form' accidental damage cover, which provides cover for any sudden and accidental damage to insured property (subject to the policy terms, conditions, and exclusions).

In addition to the above, such policies also offer specific additional and special benefits, including those which can be accessed by unit owners in a strata plan. Temporary accommodation and loss of rent are among the most significant of these benefits, triggered when a unit's occupant(s) are displaced following a claim event.

TEMPORARY ACCOMMODATION – SCOPE OF COVER

If a unit is owner-occupied, the owner may be able to access temporary accommodation in the event of a claim involving damage to their property. If the damage results in the unit being unfit for occupation, the insurer will cover the insured's temporary accommodation costs until the insured repairs are completed. An insurer will generally appoint an assessor to inspect the unit and confirm it is 'unfit for occupation', and following such confirmation, will:

- review the unit owner's selected temporary accommodation and authorise it for the relevant period (until repairs are completed); or
- arrange temporary accommodation through one of their preferred providers such as Quest Apartment Hotels.

Strata policies may also have an 'emergency accommodation' allowance, which allows affected owners to access suitable accommodation for a few days following extensive damage until their claim can be assessed and entitlements confirmed.

LOSS OF RENT – SCOPE OF COVER

If a damaged unit is tenanted, the insurers will appoint an assessor to determine whether a unit is unfit for occupation as a result of the damage. However, strata insurers will not be involved in a tenant's temporary accommodation arrangements.

Instead, a unit owner will compensate their tenant for the period the unit remains unfit for occupation (until repairs are completed), and the insurers will reimburse the owner for their loss of rental income over this period.

KEY FACTS – TEMPORARY ACCOMMODATION & LOSS OF RENT

The following facts are important to keep in mind when a claim involving temporary accommodation or loss of rent is afoot:

- Cover for temporary accommodation and loss of rent is generally provided on a costs-incurred basis, meaning that the costs need to be incurred for insurers to provide reimbursement.
- Cover for temporary accommodation or loss of rent is subject to the claim itself being accepted under the policy, and the unit being considered unfit for occupation following a loss event.
- The classification of a unit as 'unfit for occupation' is determined on a case-by-case basis. A unit is generally assessed as unfit for occupation/uninhabitable if:
 - There is no access to essential areas such as bedrooms, bathrooms, or kitchens
 - There is no access to essential services such as water or electricity
 - Required rectification works will prevent reasonable access or occupancy
 - There are health and safety risks for occupants if they remain in the unit
 - Reasonable access to the unit is not possible due to the damage.

Generally, insurers will look at whether the conditions cross over the **threshold of inconvenience to impacting the occupant's ability to reasonably access or reside in the property**. If the unit is not considered 'unfit for occupation' as a result of the loss but will be 'unfit for occupation' when insured repairs are taking place, temporary accommodation or loss of rent will be available for the duration of repairs (only). An owner-occupier is entitled to comparable (like for like) temporary accommodation, and they will also be covered for the cost of removing their contents/possessions if this is required to facilitate repairs. This is usually arranged by insurers through an associated policy benefit which covers the cost of moving, storing, and returning such items (and insuring them during this process). Some strata policies cover the cost of temporarily housing an owner's pet/s if pet-friendly accommodation cannot be secured. The entitlement to temporary accommodation ceases upon the completion of repairs (when the unit is returned to its pre-loss condition).

For loss of rent, the insurer will cover the unit owner's loss of rental income up to the point the unit is re-tenanted. If the tenant occupying the unit has vacated the premises due to it being unfit for occupation, the insurers may extend loss of rent cover up to the point a new tenancy is secured, as long as there are no unreasonable delays on the part of the unit owner/body corporate.

POLICY DIFFERENCES

Each strata insurer has its own policy wording which outlines the terms, conditions, and exclusions applicable to temporary accommodation and loss of rent. This can result in differences in the level of cover offered by each strata insurer, such as:

- a. Certain strata policies such as CHU's residential strata offering will cover rent abatements/reductions as reasonably required following a loss (as opposed to relocation), while certain other insurers will not extend coverage for rent reductions/abatements.
- b. Strata Community Insurance Australia's residential strata policy is currently the only policy that extends temporary accommodation to tenants, subject to certain policy conditions.

WITH YOU ALL THE WAY

At Honan, our dedicated strata team works closely with partnering insurers, loss adjusters, and attending builders to ensure temporary accommodation and loss of rent claims are assessed promptly for policyholders. We remain on hand to assist throughout the lifespan of each claim and support unit owners throughout the process. In the event of a claim, please reach out to your Honan broker or our Claims team to discuss the next steps.