



Insurance

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Vic Persaud recently sat down with fellow CCI Toronto Director, Sue Langlois to discuss the issue of Standard Unit By-laws as they relate to condominiums. Their extended audio interview is available at www.condopodcasts.ca

S.U.B. Text: Reading the Fine Print

The Impact of a Standard Unit By-law on a Condominium Corporation's Property Insurance Value

Condominium corporations are constantly faced with increasing costs and looking for ways to save money. One of the larger costs is property insurance premiums for the standard unit and common elements of the condominium. A Standard Unit By-law ("SUB") which excludes certain interior construction elements from the standard unit may be seen as a means of reducing the condominium's property insurance value and resulting insurance premium. The SUB, however, should not only be viewed as a mechanism for potential cost saving but also - and more importantly - as a mechanism to specify the insurance responsibilities of the condominium. Any unit improvements made by the owner above the standard unit are their responsibility to insure.

With the passing of a SUB to exclude certain construction elements (i.e. floor finishings and countertops) there is often an expectation that the insurable value should go down significantly. This thought process on the surface would seem to make sense but there are a number of factors that are overlooked when considering the impact

of the SUB on the insurable value from the perspective of an insurance appraiser. The following factors impact the amount of change in the insurable value as a result of the passing of a SUB:

1. Exclusions - In most cases, SUBs are passed to exclude specific building components and finishes from the standard unit. The most common components excluded are the floor finishings and countertops. In some instances, most interior components, such as ceiling, wall and floor finishes, plumbing and electrical fixtures and HVAC systems can be excluded. It is obvious that the more items that are excluded from the standard unit, the greater the decrease on the insurable value.
2. Quality of Interior Finishes - With any appraisal, the appraiser must make a judgment on the quality of the entire building and the finishes within the common areas and units. If there are extremely high quality finishes, such as crown molding, marble countertops and flooring in the units, removing specific

components will have a greater reduction on the insurable value.

3. Size of Units & Common Spaces - Properties with larger units and less common space will see a greater impact on their insurable value if specific items are excluded in the SUB. The construction costs of the common areas are not impacted by a SUB.
4. Amount of Time from Passing SUB and Last Appraisal - If a SUB was recently passed, many Boards may look to a previous appraised value and expect that the value will decrease. In this instance, what is often overlooked is the construction cost increases that may have occurred since the last date of appraisal. For example, in April 2013, a condominium completes an insurance appraisal that estimates the building value at \$100 million. They then pass a SUB that excludes floor finishings and countertops in April 2014. The net effect of this SUB would have to consider the construction cost increases since April 2013 (i.e. 3% or \$3,000,000)

and the decreases in the insurable value from the removal of the floor finishes and countertops (i.e. 5% or \$5,000,000). Overall the net effect as of the date the SUB was passed is a decrease of 2%. It is therefore important to consider that the impact of a SUB may be mitigated by construction cost increases since the time of the last appraisal.


As can be surmised from the preceding, there are a number of factors that contribute to the change in insurable value resulting from a SUB. The scenarios covered so far relate to the exclusion of components but it is also possible for the SUB to include items that would not be typically included in a standard unit. A common scenario where this may happen is when a developer provides incentives to purchasers, such as appliances included with the purchase of their unit. If appliances such as a washer, dryer, dishwasher, stove and refrigerator are included in the developer's standard unit definition, this can increase the insurable property value of the unit in the range of \$5,000 to \$10,000 depending on the quality of the appliances. Boards of new condominiums should therefore be prudent in reviewing

their standard unit definition to determine what is included and pass a SUB if they do not want items such as appliances included. Whether there are additional items that are part of the standard unit or items that are excluded, in order to quantify exactly the impact of the SUB on the insurable value a formal insurance appraisal of the property should be completed.

Another important consideration when a SUB is passed that excludes specific components from the unit is that unit owners should consider increasing their unit owner's insurance to ensure that they have adequate coverage for any items that may have been excluded in the SUB. Since the exclusions are often minimal (i.e. only floor finishings) the additional amount of insurance premium to owners should not be significant. Alternatively, if a unit owner has made major upgrades or improvements to their unit, they should also consider increasing their insurance by the approximate amount of the upgrades.

For those condominiums that still do not have a SUB, serious consideration should be given to passing one for many reasons.

A SUB creates equity among unit owners since it specifies exactly what the condominium's insurance will cover regardless of the upgrades and improvements of an individual unit owner. With condominiums being frequently bought and sold, a SUB provides new unit owners with clarity on what is the condominium's responsibility to insure. Lastly, those without SUBs may see increased delays in claims settlement since insurance adjusters have to try to determine the original builder's specifications in a loss scenario. With no clear definition of what is the standard unit, insurers may put the responsibility on the Board to prove what the original standard unit was at the time of construction. This may be easier to do with a newer building but can become increasingly difficult with an older building or a conversion condominium.

Overall, the impact of a SUB can vary depending on the construction elements that are excluded or included. The Board should take the proper steps to ensure the condominium's property insurance value is revised to reflect changes resulting from the passing of SUB by having a formal insurance appraisal completed. 

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Wilson, Blanchard Management is pleased to welcome Brian Dos Santos to their Executive Team.

Brian's knowledge of the condominium industry and expertise in our field has been developed over the past twenty-eight years working in condominium management in the Toronto area.



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