

## Insurance Appraisals

# Insuring Your Property to Value

A condominium property is a very valuable asset, and one of the key components to protecting it is obtaining a reliable and comprehensive insurance valuation performed by an experienced appraiser. An appraisal will guarantee that the entire property is insured to a supportable dollar amount. This is called the **TOTAL INSURABLE VALUE (TIV)**. The **CONDOMINIUM PROPERTY ACT** requires a condo corporation to acquire and maintain full replacement cost insurance on the building, the common facilities and any insurable improvements. The condo corporation is also required to review the adequacy of this insurance annually.

Insurance appraisals are highly specialized reports that start with a site inspection followed by a property analysis to determine the calculation of supportable estimates for replacement costs. Qualified appraisers are able to produce reliable estimates based on expertise acquired through extensive training and experience. Moreover, experienced appraisers make their estimates based on an analysis of the current environment, and do not rely on third party software based outside the region or use generic information to determine their estimates.

The appraiser will have certain specialized skills to determine appropriate costing. There are several additional considerations to complete an effective insurance appraisal. The importance of bylaw reviews cannot be overstated as they are crucial to the appraisal process. In the event of a disaster,

current municipal bylaws must be adhered to when rebuilding the property. Consequently, an appraiser's review of the property must include an assessment of the current property composition compared to the current standards and regulations of the specific municipality and province in which it is located. Any code requirements that are not currently met are accounted for in the replacement cost estimate.

An experienced appraiser also considers current building practices and technological improvements that have become standard in new buildings. As a general rule appraisers assume a like-for-like replacement of all components of the property whenever possible. However, there are some circumstances where appraisers assume that the existing subcomponents within a property will be replaced with something that

is similar but up to current standards. In these situations, the as-built construction practices are considered obsolete, and modern construction methodology and materials is assumed in the appraisal value.

Accounting for demolition and removal costs is another important consideration in the appraisal process. This can prove to be quite costly and differs greatly by property type. Condo corporations should be wary of the

misused straight percentage calculation to estimate demolition and removal costs.

A straight percentage often proves to be overly simplistic and ineffective in the event of major reconstruction.

Without the review and knowledge of such additional costs and considerations, there is potential for significant exposure, rendering the condo corporation liable for the difference.

**Example:** For a 150,000 sq. ft. residential tower (100 suites) with 20,000 sq. ft. of parking (100 stalls) area. After a building code and bylaw review, it may be determined that the following modernizations must be implemented if the building were to be built today:

- 40 additional parking stalls
- Lift for people with disabilities
- Sprinklers above the parking garage
- Demolition & removal of old building required



Added together, these items could total over

**\$2.5MM**

beyond the reconstruction cost of the existing items.

An insurance appraisal requires a unique skill set, and has specific demands that go beyond a house or commercial property review performed for a bank. Keeping up to date in construction methods, costs, building codes, bylaws, demolition, and the Condominium Property Act are critical to providing a reliable TIV estimate. For this reason property owners are best served when they use appraisers who do this type of work full time.

For most people, their property is their most valuable asset. The importance of having a reliable, comprehensive insurance appraisal to

protect it cannot be over emphasized. When facing major repairs, a correctly performed insurance appraisal can save the owners millions of dollars. Failure to meet property damage replacement costs because of inadequate coverage means the condo corporation, and ultimately owners, are required to pay for any shortfall. Insurance brokers and underwriters understand the details and implications of property replacement estimates, and for this reason an expertly prepared appraisal is the best insurance a property owner can have.