



## The Importance of Insuring a Condominium To Its Full Replacement Cost



There is an important reason why many Canadian provinces require condo corporations to have replacement insurance on their condominiums. This is to ensure owners are protected in the case of major peril where the property is deemed a total loss. The full replacement cost, known to appraisers as the Total Insurable Value, is to include the building

structure, all common facilities and assets, and any insurable improvements. Many corporations who do not comply with their provincial codes can be left at significant risk of being underinsured and responsible for any shortfall in coverage.

### EXAMPLES OF PROVINCIAL CODES

Each Condominium Act/Code or Strata Property Act across Canada has a similar bylaw mandating that condo corporations insure their property adequately in the case of a total loss.

The BC Strata Property Act specifies in section 149.1 that the strata corporation must obtain and maintain property insurance for the full replacement value.<sup>1</sup>

In Ontario, the Condominium Act states that the corporation shall obtain and maintain insurance on behalf of the owners for damage caused by major peril, including fire, lightning, smoke and more, and the insurance shall cover the total replacement cost.<sup>2</sup>

In Alberta, the condo corporation is required to insure the common property and units (not including improvements made to the units by the owners) against loss resulting from destruction or damage caused by any peril, and that this insurance must be equal to the replacement cost of the condominium as described.<sup>3</sup>

In Quebec, the Civil Code of Quebec stipulates that the syndicate has an insurable interest in the condominium and shall take out insurance against ordinary risks in an amount that is equal to the replacement cost of the condominium.<sup>4</sup>



## ANNUAL UPDATES TO APPRAISAL AMOUNT

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It is equally important to obtain annual updates on the amount to be insured. As the costs of construction and materials are constantly fluctuating, it is important to keep an up-to-date value that reflects these changes. It is therefore recommended that the corporation reviews the adequacy of the insurance annually. This not only ensures that they are always sufficiently covered,

but also saves them from paying too much in premiums should there be a dip in industry costs.

It is particularly important to maintain annual updates for phased developments throughout the construction period. Ensuring Total Insurable Value is updated upon the completion of each phase is critical to protecting the development.

## CASE STUDIES

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To emphasize the importance of an accurate and up-to-date insurance appraisal, here are two examples of properties that experienced a fire resulting in the total loss of the structure. In the first case, the condominium was not adequately

covered by its insurance benefit. In the second example, the business had secured sufficient insurance in the amount of the total replacement cost. The results were strikingly different.

### QUEBEC CONDOMINIUM FIRE<sup>5</sup>

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In 2008, a condominium was deemed a total loss after a fire destroyed the building. The condo board filed a claim for the common property and the condo owners filed for their personal portions. For the common property, there was a \$454,938 shortfall. The cost of the rebuild was not completely covered due to the condo corporation's insufficient insurance coverage and the owners were responsible for the difference, at a cost of \$6,119 per unit.

While many of the owners had additional insurance in the case of a shortfall, two owners did not. As a result, these owners were responsible for paying the special assessment themselves. These owners submitted a claim against the condo board and condo management, faulting them for not securing sufficient replacement cost insurance for the building. They maintained that, according to the declaration of co-ownership and section 1073 of

the Civil Code of Quebec, it was the responsibility of the condo board to provide insurance coverage for an amount equal to the building's replacement cost. As it was the condo manager's decision to not insure the building in an amount equal to the replacement value, he was held personally liable for a portion of the deficit.

It was determined in court that it was the obligation of the condo board to ensure the building in an amount equal to the full replacement cost, including demolition, taxes, and other professional fees. In addition, the condo manager was found liable for the harm suffered by the condo owners as he had set the amount of replacement cost when he purchased the insurance coverage on behalf of the condo board.



## ALBERTA MANUFACTURER FIRE

In 2007, a massive fire destroyed one of the main buildings of a manufacturing plant in Alberta. A year prior to the fire, the owners of the plant had obtained an insurance appraisal from Normac for the first time. Before requesting the appraisal, the company had been estimating their replacement costs, but had not been updating them on a regular basis. Previously the property was insured

for \$13,000,000 less than the Normac estimate. Due to our updated appraisal, the client was able to completely replace their structure, which was a total loss. Despite this major interruption to their business, they were able to make it through and are currently thriving because their coverage was sufficient. Our appraisal meant they were properly insured for the full value and saved their business.

## IMPORTANT POINTS TO REMEMBER

When considering these Quebec and Alberta examples, the value of obtaining a proper insurance appraisal is evident. A correctly performed insurance appraisal can save owners millions of dollars in repair and replacement costs and ensures a business can continue to operate after a total loss. Furthermore, working with an experienced appraiser can save owners and boards from significant conflict and protect a condo board from being held liable for a portion of replacement costs.

The most secure way to protect owners and corporations is to obtain an accurate replacement cost for the property annually. Only a professional appraiser can effectively determine the

replacement value, which must include demolition and removal expenses, current building practices and technological improvements, local and national bylaw requirements, construction labour and material fluctuations, and necessary taxes.

These true-life case studies underline the importance of always obtaining a current insurance appraisal from a company that specializes in this profession. Disasters do happen, so make sure that your assets are properly appraised.

<sup>1</sup> [http://www.bclaws.ca/civix/document/id/complete/statreg/98043\\_09#part9](http://www.bclaws.ca/civix/document/id/complete/statreg/98043_09#part9)

<sup>2</sup> <https://ccitoronto.org/sites/default/uploads/files/condoact1998/CondoAct1998.pdf>

<sup>3</sup> [www.qp.alberta.ca/documents/Acts/c22.pdf](http://www.qp.alberta.ca/documents/Acts/c22.pdf)

<sup>4</sup> <https://ccq.lexum.com/w/ccq/en#!fragment/sec1072/KGhhc2g6KGNodW5rxIVhbsSHb3JUZXh0OnNIYzEwNzlpLG5vdGVzUXVlcnk6Jycsc2Nyb2xsQ8S1xIo6lW7ErWVhcsSHxKXEp8SpXKvEusS8xldTxJB0QsSpUkVMRVZBTkNFLHRhYjp0b2MpKQ==>

<sup>5</sup> <http://www.chad.ca/en/members/professional-practice/industry/condominium/427/the-importance-of-insuring-a-condominium-for-its-full-replacement-cost>