



AGING COMMUNITY ASSOCIATIONS

Even though new community associations continue to sprout up throughout the DC metropolitan area, the vast majority of communities in the area have been here for some time. And with older buildings come various problems: leaky roofs, aging water piping systems, and cracked concrete to name a few.

These items are important, not only from an investment standpoint, but also from an insurance standpoint. Aging buildings affect the ability of the community to obtain and/or retain quality insurance coverage at a competitive price. Underwriters are focusing more on life and safety issues as the market continues its adjustments, and carriers for multifamily residential buildings are pulling into and out of the market in response to conditions in the reinsurance industry.

It may be tempting for community association managers and residents alike to “jump ship” and head to newer buildings, but the same problems eventually will surface there, too. And moving entails its own burdens. Many older associations are in desirable neighborhoods, with excellent schools and shopping. Many are centrally located and do not require a long commute to work. Many residents know their neighbors, not just down the hall, but down the block, too, so moving is not an attractive option.

The solution, then, is not to move to a newer place. The solution is to stay in place and invest some time and money into making the current community association the best that it can be.

Where do we start?

Making sure that a community association will continue to serve its resident well requires planning and perseverance, both by boards of directors and community association managers.

- The first step is to conduct a risk assessment plan to identify and analyze a community association’s exposures.
- Follow up with assessments by specialists for the complex systems.
- Use the results to develop a maintenance plan.
- Prepare a reserve study and long-term funding plan.
- Consult with insurance professionals to make sure that there is appropriate coverage and identify risks that are not insurable.
- Communicate the plan to the community and encourage feedback.
- Modify community documents if needed to enable the funding and implementation of disruptive and costly projects that are necessary to refurbish the community.

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Why is long range planning necessary?

Comprehensive insurance coverage may be difficult to obtain for older communities. Older buildings that are not well-maintained and that lack current safety features, such as sprinkler systems, are especially an insurance challenge. Insurance companies look for community associations that are well maintained, well managed, and financially sound.

Boards and managers of older buildings, then, must make sure that their buildings are maintained with the greatest possible care.

What are the common risks with older buildings?

Facade and roof. Water leaks cause property damage and mold growth.

Parking garages and plazas. Deterioration of structural concrete is costly to repair.

Swimming pools. Reconstructing a pool is costly after the pipes and structure deteriorate.

Mechanical equipment. Replacing old mechanical equipment is one of the more straightforward tasks in maintaining the building infrastructure.

Fireplaces and chimneys. Exhaust gas leaks from deteriorated flues are hazardous.

Dryer and exhaust vents. Moisture can accumulate inside from improper ventilation.

Plumbing systems. All pipe systems deteriorate and eventually need to be replaced. Potential options for deteriorated pipes are complete replacement, lining, or replacing sections in a phased plan.

Electrical systems. Electric powers systems are durable, but all components eventually will need replacement. Periodic preventive maintenance is needed to maintain reliability and safety.

LIFE CYCLE STAGES IN BUILDINGS

The physical plants of buildings generally go through predictable stages:

- 0–5 years: commissioning and debugging
- 5–15 years: routine operations with few major problems
- 15–25 years: moderate repairs
- 25–35 years: replacement of some major components
- 35–50 years: replacement of major equipment and expensive repair projects
- 50 years +: replacing or refurbishing the basic building infrastructure needs

Life safety systems. The reliability of systems generally diminishes with age, and annual testing and repairs are needed to maintain these systems. At some point, older systems will need to be upgraded to comply with current standards, which can be very costly and disruptive. Planning by professional consultants is advisable.

Life safety system components.

Existing systems can generally be maintained as long as they are operational and only require in-kind component replacements. Replacement of major components or entire systems will trigger upgrades to meet current building code requirements. It is often possible to plan system upgrades to be done in phases. This usually requires negotiations with building code officials.

Elevator systems. System performance degrades over time, but mechanical components can be maintained for many years with good maintenance. Door systems require more frequent replacement than many of the other components. Relay control systems are durable, but the performance of old systems can be unsatisfactory. New digital controls require heating and cooling systems to maintain proper temperatures.

Should we be concerned with hazardous materials?

Hazardous materials concerns include asbestos, lead paint, and fuel oil leaks. It is essential to have an environmental assessment done and a hazardous materials management plan in place and to communicate the management plan to residents and maintenance staff. The insurance carrier needs to be aware of the plan and compliance actions.

What should we know about building codes?

Replacing some major components can trigger costly upgrades in other systems to comply with current code requirements.



Do I need a special insurance endorsement for my aging building?

Yes, you need an Ordinance or Law Coverage endorsement. This is coverage for loss caused by enforcement of ordinances or laws, triggered by the fire marshal or code official, regulating construction and repair of damaged buildings. Older structures that are damaged may need upgraded electrical, HVAC, and plumbing units based on city codes. Many communities have building ordinances requiring that a building that has been damaged to a specified extent (typically 50 percent) must be demolished and rebuilt in accordance with current building codes rather than simply repaired. Unendorsed, standard commercial property insurance forms do not cover the loss of the undamaged portion of the building, the cost of demolishing that undamaged portion of the building, or the increased cost of rebuilding the entire structure in accordance with current building codes.

How much ordinance or law coverage should we buy?

Determining the amount of ordinance or law coverage that is needed should be discussed with your insurance broker.

How do we develop a maintenance plan?

Once the community association's risks have been assessed, the next step is to develop a maintenance plan for the physical aspects of the community. Insurance companies are looking for a comprehensive plan to deal with the exposures established in the risk assessment. The goals of

a maintenance plan are to avoid unscheduled service interruptions and to maximize the lifetime of the association's equipment. Just as people have their cars serviced at regular intervals, community buildings and components must be serviced on a regular basis.

The first step in developing a maintenance plan is to take a full inventory of the community association's assets that will need maintenance and repair. The inventory should list all common element building components and equipment and assess their condition. The next step is to develop a master schedule that includes preventive, short-term, and long-term maintenance jobs as well as ultimate replacement.

What are insurance carriers looking for?

Aging buildings affect the ability of the community to obtain and retain quality insurance coverage at a competitive price. If a community association is more than 20 years old, insurance carriers will ask for evidence of all major upgrades:

- Roof replacements
- HVAC and plumbing upgrades
- Fire and safety improvements

Insurance carriers are increasingly requiring community associations to produce a written maintenance plan and a reserve study as part of the insurance application process. They want to make sure that the physical components of buildings are being kept up and that adequate funds are being held in reserve should updates be needed.

What do we need to know about financial planning?

Managers and board members must make sure the association has healthy reserves so that the scheduled maintenance and replacement when needed can take place. Emergencies do happen, though, so establishing a line of credit will allow an association to borrow on short notice, if necessary. Professional help is available for conducting reserve studies. (See the "Ask the Expert" column on page 4.)

Should we hire a professional to help?

Many firms and individuals are available to help an association conduct a risk assessment plan and develop a comprehensive maintenance plan. A professional consultant will help an association develop a comprehensive plan and will know all local, state, and federal guidelines.

Where should I go for further information?

Managing and maintaining a community association so that its value is preserved and even increased should be a priority for community association managers and board members. Conducting a risk assessment plan, developing a maintenance plan, and practicing sound financial management are all necessary steps in this process. If you have any questions or need further information, please contact one of the following:

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ASK THE EXPERT

“Ask the Expert” is a regular column in Insurance Focus, featuring an interview with an expert about an important insurance issue facing community associations. This month our expert is Doug White, P.E., F. ASCE, Principal, Thomas Downey, Ltd., Consulting Engineers, Alexandria, Virginia. Doug has more than 30 years of diversified experience in engineering design of buildings, structural engineering, building investigations, reserve studies, forensic engineering, construction project management and administration, and construction cost estimating. He is a registered professional engineer in DC, MD, VA, PA, KY, and NC. He may be reached at 703-624-2369 or dwhite@TDLengineers.com.

Q: What should I know about reserve studies, and why are they important for underwriting a community for insurance?

A: A reserve study is an assessment of a property’s physical plant and estimates of future costs for large repair and replacement projects. The cost projections are used as the basis for a plan to fund the future expenses. Reserve studies are normally prepared by professional engineers or individuals certified as reserve specialists.

As properties age, components wear out and need replacement or renovation. When reserves are not properly funded, as problems develop there is a tendency to defer maintenance and replacement of key infrastructure components because resources to pay for the projects are unavailable. This can reduce the level of service provided by the infrastructure, increase chances of unanticipated failure of key components, and undermine the value of the property.

An example is the electric power distribution systems in large buildings. The components of complex electric power systems deteriorate over time from normal wear and tear. Moving parts such as switches and relays deteriorate from movement. Cable connections loosen from heating and cooling as the electrical load fluctuates. Insulation on wires deteriorates from heat. Corrosion can affect some metallic components.

Periodic preventive maintenance such as infrared scans, physical examination of major components, and tightening connections in panel boxes can minimize problems, but eventually critical components wear out. Over time, the safety and reliability of the power distribution system declines. By the time a system is 50 years old, it is substantially less safe and reliable than when it was new.

To reduce risk, the best plan is to replace key components before they become unsafe. This is expensive and disruptive but having the funds available makes it easier for management to convince the owners to do the right thing.

Similar scenarios occur for all the major systems in buildings: fire alarm systems, mechanical equipment, plumbing, fire sprinklers, communications, exterior facades, and elevators. Nothing will last forever and none of these systems improve with age. Effective risk management requires assessing the physical condition of these systems, planning for their eventual renovation or replacement, and planning for funding the projects.

In assessing risks at a property, a reserve study can help the insurance professional anticipate potential problems and prepare a plan for addressing them.

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