

A BUYER'S GUIDE FOR Owners of Apartment Communities



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Purchasing an apartment community is an investment that must be protected to ensure a measurable return. Despite this fact, even insurance industry experts struggle with providing apartment community owners with the information they need to make informed decisions about commercial insurance and how to properly protect their investment. That was until now! In this Top Floor Insurance Owner's Guide, we will walk you through what should be considered when purchasing apartment community insurance and how to determine if you are getting a competitive insurance rate.

Our insurance specialists have outlined 4 steps you can take to determine if your current insurance policy is adequately covering your investment, and if your insurance premiums are in line with market rates.

STEP 1

Focus on the replacement cost

For insurance companies, the valuation that will be used is the replacement cost. When considering an insurance policy, you do not have to insure the property for your down payment, the cost of the mortgage, or the appraisal value. Instead, you should determine the cost to rebuild the structure with the same quality materials. For example, if your apartment community is a non-sprinklered frame construction then this is the most the insurance company will be willing to pay for. The most important metric for determining the replacement cost for your apartment community is to calculate the actual square footage of all structures including any club houses, tenant buildings,

maintenance facilities, etc. When selecting an insurance policy, be sure to determine, beforehand, the approximate cost to rebuild your apartment community should disaster hit. Getting construction quotes now before you shop for insurance (or when you are looking to renew your policy) is a good measuring stick to make sure you are covered for what you need to restore your apartment community back to whole again following a total loss. So for a 100,000 square foot property, the average cost to replace a garden style apartment community is presently \$75- \$85 per square foot. With this, an insurance policy with at least \$7.5M-\$8.5M in total loss coverage would be needed.



100,000
SQUARE FOOT PROPERTY



\$75-\$85
PER SQUARE FOOT

\$7.5M-\$8.5M
TOTAL LOSS COVERAGE
INSURANCE POLICY

BUYER BEWARE!

In the event of a total loss, some laws or ordinances may require you to rebuild the apartment community to be in compliance with new codes. These codes may have changed since the time of the original construction and may require additional materials or oversight. In these cases, you would want to add a separate limit for Ordinance or Law Coverage to your policy, in addition to the replacement cost building limit.

Calculating the total repair cost of your property is one part of the larger total. In fact, two other valuations principles are essential to consider:



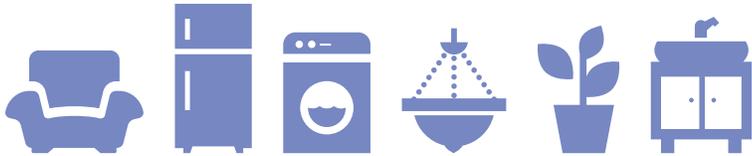
Insurance contents and



Business interruption insurance

STEP 2

Determine your content valuation



Most apartment communities have some type of physical contents, which refer to the tangible objects that remain on the premises and are owned by the apartment community. For example, lobby furniture, fixtures, appliances, exercise equipment, maintenance equipment, and other such items of this nature...

This does not include tenants
and their property - **you don't own them!**

Depending on the type of contents, this valuation could be as little as \$10,000 or upwards of several hundred thousand dollars.

STEP 3

Figure out if you need business interruption coverage



Before you can determine if your insurance premium is reasonable, you have to consider if you need business interruption insurance, or otherwise known as business income insurance or loss of rent insurance. Business interruption insurance is always valued as the total annual gross revenue for your property. So, for example, if you generate \$490,000 in rental income per year, your mortgage company will likely require a maximum limit of \$490,000 in business interruption insurance, should your building be uninhabitable for 12 months.

BUYER BEWARE!

Business interruption insurance is priced on your gross monthly rental income, however your insurance company will only pay you based on the loss of “net income”. That is your gross revenue minus monthly expenses such as mortgage and taxes. You may have had a \$490,000 business interruption insurance policy, but you will likely only get paid a fraction of this amount. Also, if you are able to relocate tenants to another building within your community, the insurance company may not pay you at all for the loss of use of the building under repair.

Business interruption insurance is ideal if you:

- Only have one apartment building;
- Have properties near the coast, hurricane, flood zone, or other weather disaster prone areas; or
- Have all of your properties fully occupied.

STEP 4

Calculate your total insurable value (TIV)



Without fully understanding TIV, what this means, and how it was derived, it will be almost impossible to accurately compare insurance proposals and ensure you are getting a fair insurance rate for your apartment community.

The TIV is the sum of:

- Replacement Cost;
- Content Insurance; and
- Business Interruption Insurance.

TIV is the value that drives your property insurance premium. If you know this value then you can easily determine what rate you are being charged and how it may compare with other insurance quotes you receive.

As a general rule for new “A” properties, anything rated under \$0.20 per \$100 of TIV is a **great rate!**

If your TIV is \$7 million then an annual property insurance premium of \$14,000 would be a **good deal!**

That’s (\$7,000,000/100) x 0.20.

-   If you’re ready to comparison shop, Top Floor Insurance guarantees free and fast insurance premium quotes, within 24 hours, without the hassle of completing mountains of paperwork.



Conclusion

At Top Floor Insurance, our commitment is to make the apartment community insurance process super easy. We pride ourselves on being transparent and simplifying insurance for all apartment community owners. We work to empower building owners around the country, by providing important information to enable all owners to negotiate affordable insurance rates. With decades of insurance experience, Top Floor Insurance specializes in apartment community insurance - that is all we do, period.

If you are unsure of what type of coverage you have, feel free to call us at **404-266-3218** to schedule a complimentary policy review.

Our insurance specialists will be happy to thoroughly review your current policy, give you a quick insurance quote, all with no obligation to buy!