

# Canadian APARTMENT *Magazine*

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## Amenities give your building an edge



Colliers International  
on gearing amenities to  
your community

PHOTO: JAMES HARRIS



**12 COVER STORY**

## Building a spirit of community

How Colliers International uses amenities to attract and retain tenants  
By David Gargaro

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# How much insurance should I have for my rental property?

By Christopher Seepe

Your three-storey 11-plex investment property just burned to the ground. Guess what? You're now a land developer.

What am I talking about? You have to reconstruct your lost building. You will need an architect, project manager, construction manager, subcontractors, building permits, a construction loan and myriad other things you perhaps never knew before.

Being the astute investor that you are, you've always choked the life out of every cost in your investment to maximize your net operating income. This included buying the minimum building insurance required by law or by your lender. However, the lender only cares that it can recover its outstanding loan.

You bought your property for \$1 million with a loan-to-value (LTV) of 75 per cent (down payment of \$250,000 and borrowed \$750,000). To keep your insurance premium to a minimum, your land allocation is 20 per cent and the building 80 per cent, so you insure your building for \$800,000.

Two years later, your building is irrecoverably lost. To keep this example simple, the insurance company gives you your \$800,000. You already paid down, say, \$25,000 of your principal amount. Your lender, which no longer has your building or the rental income as collateral, requires you to pay off the mortgage, and takes \$725,000 (you likely have little choice—check the conditions of your mortgage). You're left with \$75,000 to reconstruct your building.

You research a rough estimate of what the cost would be to construct your new building. In Montreal and Toronto, it probably ranges between \$150 and \$200 per square foot. You roughly estimate \$140/sq ft; at 12,000 sq ft, you'll need \$1,680,000.

Now what? You will likely have to come up with at least 35 per cent (\$588,000) as

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down payment. Construction financing is much more difficult and expensive to get than buying an existing property. Traditional banks will probably not even extend you a loan since you have no track record in land development, and private lenders charge a hefty premium over the interest rate of traditional lenders.

You've just discovered that your investment has been wiped out.

Unless you have the financial means (like a REIT) to finance your own rebuild, don't go cheap on your building insurance.

Determine the real replacement cost for your building and pay the appropriate premium. Shop around too.

Disclose everything that might be considered a risk by the insurer. Insurance companies are in the business of not paying out for damages and will look for every means to reduce or refuse to pay you for your losses.

Don't bother with a low deductible. Commercial insurance is meant to cover catastrophic events, not minor damage. If you make 'small' claims against your insurance, you will find it difficult to get insured in the future, or your premiums will be exorbitant. Every insurer will ask you whether you or the previous owner made an insurance claim for the building in the previous five years.

Take a high deductible (perhaps \$5,000 to \$10,000).

Never is it truer than when comparing insurance plans that you must absolutely ensure that you are comparing apples-to-apples. This means you have to read the mind-numbing insurance policy, consider all your possible what-if scenarios, and get the answers in writing. **CAN**



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