

Heritage Buildings and their Insurance Complexities



Heritage buildings are an integral part of our history. Whether it be in our small municipalities, towns, cities or in our capital where some of the oldest buildings and cultural richness reside. Heritage status can be given for cultural and archeological reasons or due to the building's age and engineering and are legally protected through legislation. In Manitoba, that is The Heritage Resource Act. These inherited tokens of our history require expertise in their care to ensure the rich conservation of their value is protected. Many designated heritage buildings are assets of the government with which it resides, but in plenty of cases, these buildings are bought and sold like any other or pass through families' hands generationally. The complexities of owning a heritage building are vast – as are the insurance implications as a result.

Once a building is designated heritage under The Heritage Resource Act, that designation has repercussions for the future maintenance, repairs and environmental modernization, if desired. Those implications are largely that any changes to the heritage building (or part of the building designated heritage) must be approved by the committee of the act, the Manitoba Heritage Council who takes responsibility over the conservation of the heritage building's health. These councils are filled with historians of different scopes of experience and expertise – but their sole purpose is to be the final say when it comes to deciding whether to preserve, rehabilitate, restore or reconstruct a heritage building

when repairs are required, insurance loss or not and requires a “Heritage Permit” prior to construction. The intent of the Act and the Council is solely on the preservation of the building's history – regardless of cost. Their authority goes as far as taking control of a building if the Council deems that prejudicial delays are occurring in preservation of or potential damage to the building and they may proceed with necessary steps to protect it – which can often occur in the event of a loss.

In insurance, there are a vast array of tools available to Insurance Brokers to assist in properly determining the reconstruction cost of a building, as insurance is intended to repair or replace your property with like kind and quality. In the case of a non-heritage building, this would mean that if your building built in 1950 was damaged, it would be replaced with building materials utilized in today's age. For example, the asbestos filled insulation used in the 1950's would be replaced with a safer and more modern alternative, and the generic manufactured, but outdated, designed tile from the 1970's would be replaced with a modern tile in today's market place.

This is not the case with how heritage buildings are treated and the tools used to determine values are essentially irrelevant; as mentioned, the repair is overseen by the Heritage Committee whose goal is preservation of its history and protection of its heritage value. Depending on whether they decide to preserve, rehabilitate, restore, or reconstruct – they will do so bearing no cost in mind and will require materials as authentic as possible. Brick from that time period (if possible) will be selected to replace a damaged wall or a brick made in a similar fashion to the time period. A stained glass window with intricate ironwork must be replaced with a stained glass window of the same quality. A delicately hand carved door must be replaced with a door made of the same type of wood from the same time period (if possible) also hand carved... and it goes on and on to simple but still costly replacements such as custom window sizes. Sourcing these kinds of dying trades and materials can be extremely difficult and the search can be worldwide. If you do find someone capable of

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repairing or restoring these types of painstakingly delicate items, you are dealing with a specialist and therefore have a lack of competition. Which means you will be paying that specialist significantly more money. You would also need to plan for significant delays in work compared to standard construction.



In essence, more give or take is needed when determining the reconstruction value of a heritage building. The cost per square foot estimate often used for insurance purposes also includes other expenses required when rebuilding or repairing. These other expenses include fees for experts. For a partial fire loss for example, a structural engineer would be required to ensure the integrity of the building before work proceeds. That integrity inspection may also include searches for harmful building materials presenting health dangers to potential workers. Heritage buildings need the same but generally “on steroids.” Specialty appraisers, structural engineers, environmental engineers, architects specializing in modernizing and in esthetics of older buildings to name a few. Involvement of these experts will be required in a loss, which will drastically increase overall costs.

So, in the case of a loss, a general contractor and insured must work together with: their insurance adjuster, remediation contractors tasked with dealing with hazardous items (lead, asbestos etc.), specialized sub trades, manufacturers from near and far and specialized experts to determine a plan of action. This

plan must be overseen by the Heritage Council, Heritage Permits required, and it must also be approved by the by-laws officer as the Heritage Resource Act is subject to new Zoning By-Laws and Building Codes. Heritage buildings weren’t built to meet today’s building and safety standards. While the existing structures are “grandfathered” when it comes to these by-laws, any changes to them are subject to these new codes. If the by-laws officer says proposed repairs to a loss are not up to code, it’s back to the drawing board including re-approaching the Heritage Committee for approving changes. There are many moving parts and many delays should be expected. These delays have an effect on a loss.

Time is a major factor when dealing with Heritage Buildings and adjusting claims in the face of a loss and as a result, Business Interruption insurance reserves are also challenging to determine. The coverage intended to ensure a business’s financial state will often be provided (if offered at all) with more scrutinized restrictions due to the length of time needed to adjust claims to heritage buildings. This can include limitations to the indemnity period and sub-limits on business interruption coverages offered which can mean that the insured may struggle financially.

The complications of determining the appropriate value, coupled with the time needed to properly repair these buildings often makes heritage buildings undesirable to insurers. However difficult to secure coverage, it is possible. Using a broker with an understanding of how heritage buildings are adjusted and insured is imperative as they can assist you in determining a value you are comfortable with and provide additional risk management. Ultimately, a quality surveyor is the best way to determine values as your appraiser will provide a detailed report based on the buildings specific features – not a cost per square foot. That, along with a quality over price oriented frame of mind when it comes to your insurance policy, using an experienced broker are how the complexities of these important buildings are overcome. Avant Insurance is here to help.