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Insuring Unique and Unusual Properties

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There's no doubt the Canadian housing market is changing. Many factors are driving the change, including demographics, economics, and taste. In this Trends Paper, we'll take an in-depth look at two types of unusual properties that are getting a lot of press and that some are seeing as possible answers to affordability issues: So-called tiny homes and laneway homes. As well, we'll briefly look at insurance issues related to other properties for which traditional homeowners' coverage is generally not sufficient: heritage homes and high value homes.

TINY HOUSES

What is a tiny house?

As the name implies, a tiny house is small dwelling unit intended for year-round use. Just how small? There's no fixed rule, but in researching the topic, there are many references to tiny homes having an area of less than 400 square feet. Stefan Tirschler, Product + Underwriting Manager at Square One Insurance Services in Vancouver, explained why that seems to be a key limit. "Once you hit the 400 square foot mark, you're likely getting into the definition of "dwelling unit" under building codes and local zoning bylaws. In Vancouver, for example, it's 398 sq. feet. If a home is smaller, it may no longer be considered a dwelling unit, even if the structure is built on a solid foundation. And, once you reach the "dwelling unit" threshold, you're going to find inspectors coming along and you'll be expected to adhere to all sorts of requirements, such as bylaws and zoning," says Tirschler.

To Aviva, one of the few insurers currently offering coverage for tiny homes in Canada, size is not the defining characteristic. The key criteria are that the tiny home is manufactured to the CSA's Z240 standard and that it be permanently parked and blocked and skirted to the municipal and provincial standards for wherever it is situated, according to Michael Hewett, Senior Product Manager, Leisure and Lifestyle, at Aviva. The CSA Z240 standard is the same standard Aviva applies for insuring manufactured homes that are suitable for year-round use.

Square One finds shipping container homes more challenging to deal with. “They are a different can of worms,” says Tirschler. “Shipping containers are not as easy to find and the cost of moving them to where you want them, and then converting them to a habitable unit (if self-built), can be highly variable. And, being risk advisors, we have to be cognizant of the implications of a home that has rigid, impenetrable walls and potentially limited points of egress. There are questions of personal safety for the customer and for emergency services trying to respond to emergencies. Basically, the further away you move from what is well understood, the harder it is to predict what’s going to happen and how you’re going to respond. By comparison to a tiny home that’s built of traditional building materials, it’s more difficult to quantify the unique features of a shipping container. We’d have to look at each individual case,” he says.

Some tiny homes are built on a chassis and have wheels (these are often referred to by the acronym: THOW, which stands for Tiny Homes on Wheels.), making them sound like recreational vehicles (RVs). There are a number of important distinctions between THOWs and RVs, however. As their name implies, RVs are considered a type of vehicle (rather than a building), which means they have VIN numbers and are subject to rules related to vehicle safety and roadworthiness. But perhaps the most important distinction between a THOW and RV is in the intended use: THOWs are designed to be installed on a permanent foundation and are intended to be occupied year-round, so they are built much sturdier than RVs, which are intended for occasional use. So, though a tiny home may be built on wheels to accommodate transportation of it to a site, most communities require that it be placed on some sort of foundation to ensure stability and safety.

As noted, tiny homes – whether on wheels or not – are built to feel like traditional homes, whereas RVs are more of a place to rest your head as you travel around. “In tiny homes you’re likely to see a greater level of detail in finishes. It may be up on wheels, but inside you find ceramic tile floors, dishwashers, pot belly stoves, and many of the things you find in a standard home,” said Tirschler. “It’s meant to feel like a home, not like a compromise. So, you can’t fall into the trap of equating everything just in terms of size, or based on the fact it could be portable,” he adds. Hewett of Aviva agrees, “Because tiny homes are used year around, they are heavier, they have thicker walls, more insulation, better roofs, larger appliances, and finishes that are intended for comfort.”

The Tiny House Movement

When tiny home enthusiasts talk about them, they often speak of being part of a social movement. Some believe this phenomenon can be traced back to the 2014 book, *The Big Tiny: A Built-It-Myself Memoir*, by Dee Williams. Home renovations shows and magazine storied featuring tiny homes have also fuelled their popularity.

Adherents of the “movement” are described as “choosing to downsize in response to financial pressure and to address environmental issues such as energy use and greenhouse gas production. Not only do tiny houses provide owners with more financial freedom as a result of reductions in capital, operating, and maintenance costs, the smaller size of these houses also reduces the time needed to maintain the home.

Though the movement originated in the U.S., it has taken hold in Canada as well. According to the Tiny Home Alliance there are a number of reasons the movement is gaining popularity in Canada. Reasons cited include: housing affordability (according to the Alliance's website, more than 60% of tiny home owners are mortgage-free), ecological stewardship, and the most critical nationwide issue – lack of affordable, well managed rental accommodations.

Tirschler of Square One points to a number of reasons for why tiny homes are catching on here. "These days, especially in cities, you see them catching on thanks to increased density, reduced availability of housing, and high costs of housing. Also, some younger people don't necessarily aspire to that bucolic idea of traditional home ownership. They may want a home of their own, but the standard options are sometimes out of reach for financial reasons. You also have older generations looking to downsize and maximize their funds for retirement, but they still want to be able to pick up and move if it strikes their fancy. You have a third group that is, in some ways, one of the most vocal groups. They're environmentally conscious and they find that a tiny house satisfies all their creature comfort desires without having a negative environmental impact. There's also a group who goes further and promotes the sacrifices they've made to live in a tiny home so they can have a smaller environmental impact," he says.

Tiny home communities are also springing up. In some cases they are being considered as ways to house homeless, but they are also being seen as "creative urban infill." Some Canadian communities are exploring the idea of developing tiny home neighborhoods as ways of enticing young people to their towns.

How Tiny Homes are Regulated in Canada

Zoning by-laws often are the biggest hurdle for owners of tiny homes. "There was a situation in Vancouver where a couple had a 220 sq. foot house parked in a laneway on a trailer and they were ordered to remove it because under city bylaws it was too big to be on a trailer, but it was considered too small to be a house. They were stuck between a rock and a hard place because the municipality didn't know where this house belonged – the local rules hadn't contemplated such houses," says Tirschler.

As well, people trying to set up tiny home communities can face regulatory hurdles with respect to connecting to municipal services, like sewer and water connections. Existing zoning bylaws that specify minimum lot sizes, frontages, and setbacks are often greater than they need to be for tiny houses. As well, the development charges and costs for municipal hook-ups that are based on traditional housing modes are disproportionately high for tiny homes.

In late 2015, as staff from various provincial, territorial, and municipal building authorities began receiving more-and-more calls and questions about the regulatory requirements for tiny houses, the Canadian Standards Authority hosted a call with various parties to discuss the issues. They put together a Provincial-Territorial Working Group on Tiny Homes to consider what changes may be needed to construction bylaws and regulations across the country.

In October 2016 the working group issued a discussion paper that included recommendations to the Provincial-Territorial Policy Advisory Committee on Codes and the Canadian Commission on Building and Fire Codes. The gist of the recommendations is that bylaws and regulations be modernized to accommodate tiny homes and to ensure that lot size, frontage and setback requirements, as well as development charges and hookup costs, be correlated to the size of tiny homes.

Square One's Tirschler expects that in the not too distant future, tiny homes will be common and well accepted. "Ten years from now, every city will have building codes specifically for tiny houses. And, I suspect the vast majority of the codes applicable to tiny homes will be consistent with codes applicable to conventional homes, because the codes are best practices that aren't necessarily unique to specific styles of homes," he says.

Insuring Tiny Homes

Because tiny homes are a relatively new phenomenon, the insurance options in Canada are limited. Aviva insures them currently, and Square One will have an option ready by early 2018.

"Insurance is historically about established trends, patterns, and statistics," says Tirschler. "Traditional homes and condos are really well established because we know how people build them, and the industry has been insuring homes for hundreds of years. So, we know how to predict, underwrite, and price for them. The same goes for RVs. Tiny houses blur the line because people who own them don't just look for portability or for comfort – they're blending the two into this hybrid structure. The challenge is in identifying the nature of that tiny home, making sure you calculate replacement cost accurately, and pricing it according to the degree of risk it represents. I think their mobility has a lot to do with that. If something's on the road most of the time, you're facing a very different set of perils that are likely to cause damage than a tiny home that's stationary most of the time. First you have to understand what the house is, then you have to understand what it's exposed to," he says.

Since April 2017 Aviva has been offering insurance on tiny homes under its manufactured home products form. "To us, a tiny home is no different than a park model trailer that is designated for year-round use," explains Hewett. The fact that it may be built on a chassis and have wheels is not of concern to Aviva. So long as the unit is certified as being built to the CSA Z240 standard, or a related standard that applies locally to satisfy bylaws, and it is permanently parked and skirted to local and provincial standards, it's eligible for coverage as a manufactured home.

"The reason we use manufactured home products coverage is that it is designed to insure a home based only on its value without using a reconstruction cost calculator. With manufactured and tiny homes, you can't really use a tool to calculate the reconstruction cost property. That's why we put it on a manufactured home form which has a co-insurance clause," Hewett said. In terms of the amount of the insurance, it's usually based on the value of the unit plus the site preparation costs, which could include fees paid to dig a well, put in a septic system, and so on.

The CSA certification is a key requirement and without it, Aviva will decline the risk, according to Hewett. So, as a practical matter, this means that do-it-yourselfers who build their own tiny home will likely not qualify. "A potential insured can go find someone to certify a unit they might have built themselves. We get inquiries all the time about this, but as soon as we ask for the CSA standard, it turns into a decline," he says.

Aviva offers the following coverage for qualifying tiny homes that are primary or secondary residences (Note: Aviva also offers replacement cost coverage to tenants who rent tiny homes that are under 10 years old):

comprehensive form:

- available on homes 25 years and newer, or fully renovated – replacement cost on the building and contents
- homes 10 years and less receive guaranteed replacement cost coverage

broad form:

- available on homes 25 years and newer, or fully renovated -- replacement cost on the building and contents
- for older units it is actual cash value on the building and replacement cost on contents

Aviva also offers fire and extended coverage (EC) for tiny homes that are only seasonal residences.

Earthquake coverage is available and overland water coverage is available in Alberta and BC (soon to be available elsewhere in Canada) on Aviva's manufactured home products policies.

And finally, in the U.S. there is some commentary on insuring tiny houses on wheels as a tow load. Tirschler doesn't think this is the appropriate analysis. "Generally insuring something as a tow load is a one-time thing – it's a shipping project. But if a tiny home is built to be portable, and it's capable of being moved without any extraordinary shipping measures involved, then it may not need to be insured under a specialty tow load or commercial product," he says.

Underwriting Issues and Claims History on Tiny Homes

Other than meeting the CSA Z240 standard, Aviva's Hewett says there are no particular underwriting issues. As for the requirement that the home be blocked and skirted, Aviva relies on the information from the broker.

In terms of claims history, since Aviva has only been insuring tiny homes for a short period, there is no distinct claims history for them. However, since they are viewed as manufactured homes, Aviva expects claims to be in line with those of other properties insured under its manufactured home product.

LANEWAY HOMES

What's a laneway home?

A laneway home is usually defined as a habitable building that an owner puts up separately from the main building on their property. Carriage houses and converted freestanding garages that are made habitable fit into this category. The building can be used by the property owner or a family member, or it can be rented out to unrelated third parties.

As real estate prices soar, cities are looking for affordable housing options so they are increasingly open to allowing people to build laneway houses. As well, property owners are looking for ways to help pay for their own homes and so they are considering converting garages or building laneway homes on their property for rental income. "Often people build laneway homes because of economics. Quite simply, they're interested in having a source of income," says Square One's Tirschler.

Over the last five to 10 years, laneway homes have really grown in popularity in Vancouver. "It's not that converting garages and the like hasn't been done before. But as housing has become less available and demand has increased in desirable locations like Vancouver and Toronto, market factors are driving the decision to build them. We're seeing them in Calgary too." Another reason they're growing in popularity, Tirschler believes, is that they provide people looking to rent with a place they can afford that provides that detached "my own home" feeling, instead of traditional apartments.

How Laneway Homes are Regulated

Tirschler believes that regulation of laneway homes lags. "They're not totally unregulated. When you're building a structure on a property you already own, you're dealing with the usual approvals, zoning, and by-laws," he says. But in some cases, municipalities are struggling to refine the regulations, particularly around occupancy. Some municipalities are finding that their regulations inadvertently prohibit them. So, as with regulation of tiny homes, some changes may be needed.

The City of Toronto is looking at making changes to its bylaws to allow laneway houses. The City's existing zoning bylaw doesn't permit laneway houses. A number of Toronto Counsellors are on record in favour of them as part of the solution to the city's affordable housing shortage. Among the reasons laneway houses have so far not been allowed are concerns about accessibility of emergency vehicles, parking, and greenspace.

Insuring Laneway Homes

Traditionally there have been two basic ways to insure laneway homes:

- as a detached structure on the primary homeowners' policy, or
- as a separate building.

If a laneway home is insured as a detached structure on a homeowner's policy, the laneway home is typically only covered up to a certain percentage of the main coverage. The issue, therefore, is whether such coverage is enough. If, for example, the homeowner has a policy that covers the main residence to $400,000 and the limitation of coverage on detached structures is 15%, the laneway home will only be covered to $60,000. In the event of a loss, that may not be enough to rebuild. "When it comes to rebuilding a laneway home, costs could be higher than the homeowner may think because of added care and expense in terms of removing debris and rebuilding. It can be more difficult to surgically re-build into a small spot," notes Tirschler. "The insured needs to decide whether the coverage limits under their policy are enough," he says.

As well, if the laneway home is rented to an unrelated party, the policy may be structured for a two family dwelling, which could increase the premium. (Of course, if the homeowner doesn't declare to the insurer that the unit is being rented to a third party, the policy might not respond because the insurer may consider the rental a material circumstance that should be disclosed.)

In contrast, the benefit of insuring a laneway home as a separate building is that it's fully protected with no maximum. The down side of this is the potential for higher premiums and two deductibles.

Square One Insurance Services, headquartered in Vancouver, where laneway houses are particularly popular, has come up with another option. "We recognized early on that laneway homes were becoming a "thing," so we set about finding a solution that would help clients who were looking to insure them. Basically, we've unbundled our homeowner's policy so that customers can fully customize every section of coverage. This way they have coverage to the exact amount they need, rather than relying on more-or-less arbitrary limits that might apply to detached structures under other policies," said Tirschler.

Square One policyholders receive comprehensive coverage, including earthquake and sewer backup, and where eligible, what they call inland flood (which other insurers often refer to as "overland flood").

Underwriting Issues and Claims History on Laneway Homes

In general, underwriting of laneway homes is no different from that of other homes. According to Tirschler, underwriters will look at things like:

- What is the structure made of
- How old is the house and how old are things like the roof and hot water tank
- How many people will be living there, and whether they're related
- Whether the homeowner requires tenants to carry renter's insurance
- What kind of rentals they'll be doing – for example, will it be a long-term rental or AirBnB-type rental.

Square One has found that in terms of claims, laneway homes are consistent with other types of homes of similar occupancy.

HERITAGE HOMES

What is a Heritage Home?

A heritage home is a home that has been formally designated by a government entity (federal provincial or local) because it is considered aesthetic, historic, scientific, social, or spiritual importunate of significance for past, present, or future generations. Each heritage conservation designation has unique requirements the property owner must abide by.

Regulation of Heritage Homes

"Heritage designation tends to vary," says Square One's Tirschler. "Heritage designations are generally set either at the provincial or municipal level. The level designating it will determine just how valuable the home is from a heritage perspective, and they will assign different grades of protection to the property that is required, depending on the property's historical merit," he says. "That's where you might see one home that only has to preserve the exterior appearance, while right next to it they're required to preserve everything about it, right down to the kind of plaster used…because a house may be so rare that the community doesn't want to lose it." Indeed, some historic designations even remove the discretion over whether to rebuild after a loss – they mandate rebuilding.

Insuring Heritage Homes
Some insurers hesitate to insure heritage buildings because they feel such buildings carry higher risks, due to things like old wiring, old piping, old foundations and roofs, and because the cost of restoration in the event of a loss can be very costly. Some insurers will cover heritage homes, but may not offer guaranteed replacement cost.

According to Tirschler, when a customer says “I have a heritage home”, the insurance professional’s next question should be, “What kind of heritage designation do you have? What restrictions are place?” This information “will inform our decision when we’re recommending coverage so that we point you in the direction of a product that will allow you the latitude to comply with those requirements,” he says.

Because of the unique construction of heritage homes and the unique rules that may apply to them regarding restoration and rebuilding, heritage homes are often insured as high value homes. “Heritage homes often are treated as high value homes for a couple reasons. First, like high value homes, the restoration costs in the event of a loss suffered on a heritage home can be quite high. If the designation requires the use of the same materials, the same style of construction, and sometimes even the same techniques to rebuild, that can be incredibly expensive. Also, high value policies are structured in such a way that they will pay to hire that artisan plasterer from Italy who may be needed to restore some piece of crown molding, which you may not get under a traditional homeowners policy,” explains Tirschler. High value policies will also cover costs for things like planning approvals and payment for temporary living expenses for extended periods because repair of heritage homes may take longer than restoration of a normal home.

Underwriting issues
It’s imperative that the underwriter know about the heritage designation. The age, quality, and condition of the property, as well as the requirements of the particular designation are factors the underwriter will consider. Whether steps have been taken to reduce risks, such as installation of smoke detectors, burglar and fire alarms, updating of wiring, and so on, will also be considered. Basically, as with other structures, the underwriter will be looking to establish a good baseline cost estimate for the structure. (Of course, doing so is trickier with heritage buildings, especially if the heritage designation requires use of the same materials and same style of construction as originally built.) The insurer may also require appraisal by someone with special knowledge of heritage buildings.

HIGH VALUE HOMES

What constitutes a high value home in Canada in 2017?
With the cost of housing soaring in parts of Canada, it’s natural to wonder what constitutes a high value home these days. It turns out, for insurance purposes, it’s not the price paid for the house that counts, according to Anthea McFarland, Senior Vice President, Personal Insurance, HUB International. “Usually high value is defined as a home with a replacement cost of more than $1 million,” McFarland says. Victoria Hayes, Vice President & Manager, Aon Risk Solutions, Private Risk Management, wouldn’t solely define high value homes based on replacement costs. She does admit that when issuing a high value home policy, some insurance

companies look to the range of replacement cost between $1.5 million to $2 million (taking into account higher building costs in places like Vancouver or Toronto).

"It's not a simple formula that defines what a high value home is. Typically we're looking at criteria like: custom built homes that often can take a couple years to construct, designed by an architect, finished by an interior decorator, homes with unique features, high-calibre custom finishes, maybe marble or handcrafted wood accents, extensive landscaping, a custom home automation system, and so on," says Hayes.

For some insurers, neither the replacement cost nor the calibre of construction or finishes on the home are the key criteria when deciding whether to provide a high value policy. "Whether an insured qualifies for Aviva Ovation really depends on the customer. Ovation customers are a different kind of client," says Hewett. "We're looking to match the best coverage for the client. Ovation customers have very different expectations. For example, they expect things to happen faster and with Ovation they get personalized claims service. So if they were to lose a $24,000 ring and they provide all the required information or documents for the claim, we could settle the claim that same day," he says.

Insuring High Value Homes
High value home policies typically offer guaranteed replacement cost, or extended replacement cost. "With high value home policies, I've heard of insurers in a claim situation who are prepared to bring in specially skilled tradespeople to repair the home. In one such instance an insurer brought a skilled plasterer from Ireland to complete the seamless repairs. Also I've heard clients have gone with the insurance adjuster to hand select the replacement marble so that it matches throughout," says Aon's Hayes.

Unlike normal homeowner's policies, which provide a set percentage for personal property limit (Coverage C) based on the amount on dwelling coverage (Coverage A), with high value properties the insured can choose a varying percentage for their personal property limit of coverage they want to insure, says McFarland. Another common difference with high value policies is that living expenses are normally not limited to a percent of the policy value. This difference is in recognition of the fact that the time it takes to re-build high value homes varies and depends on the situation.

As well, most of these policies include a cash settlement option because insurers appreciate that clients may just want to start over at their prerogative, says Hayes.

And finally, because customers that qualify for high value homeowner's coverage are typically high net worth individuals, most insurers also offer endorsements to cover unusual risks the insured and their family members may be subject to because of their wealth. For example, they qualify for coverage for things like kidnapping, abduction, carjacking, home invasion, cyber bullying, stalking, and so on.

Underwriting Challenges
Underwriters review the high value house and its construction features. Hayes says that on high value homes insurers almost always do a full interior appraisal and thoroughly review the

characteristics of the building. During the appraisal if there are architectural drawings they like to review them and they prefer to meet with the owner, as the homeowner as they typically know the value of the home and any renovation/upgrade budgets.

“If a home was built in the1900’s there is probably a combination of old and new construction – if you have a loss on a home with blended construction, it can be very costly to rebuild,” says Hayes. “For example, in Toronto an 1870’s constructed row home in a dense neighborhood could be considered a high value home. What people don’t realize is that in a neighborhood like that you just can’t leave a dumpster or construction equipment in front of the house for the duration of the rebuild, it must be removed nightly/weekly so relatively ordinary expenses suddenly start to add up. On a row house you might have to hand chisel the damaged home out so that you don’t disturb the adjoining house, again this drives the cost up considerably. Insurers that specialize in insuring high value homes like Chubb, AIG, Guarantee Company of America, and Aviva Ovation understand what’s involved to make a client whole again because it’s what they do all the time” she says.

Underwriters of high value policies will also look at the same sorts of things that insurers look at when offering traditional homeowners coverage: prior insurance, claims history, possible exposures related to the insured, but they look at these things in much more detail, says HUB’s McFarland.

And, as Aviva’s Hewett noted, high value policyholders often receive personalized claims service and settlement.