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## Insurance Series

# Unit Owner Building Insurance Responsibilities

by Chris Manougian

The three types of building property insurance that are used to cover condominium associations in Maryland, Washington DC, and Virginia are Bare Walls coverage, Single Entity coverage and All Inclusive coverage.

Bare Walls coverage is the least extensive form of building property coverage available. It covers the association's common elements, and is only extended to cover the bare or unfinished walls, ceilings, and floors of the units within the condominium building. Structural fixtures and equipment such as cabinets, wall coverings, floor coverings, and appliances within the units are not (typically) covered by Bare Walls Insurance.

Single Entity coverage is the most prevalent type of building property coverage. It also covers the association's common elements, but is extended to cover the finished or completed walls, ceilings, and floors of the units within the condominium structure. Actually, Single Entity insurance will cover all structural items, fixtures, and equipment within the units that were deeded by the developer of the association, including like kind and quality replacements of such items. In theory, the Single Entity form of building property insurance will not cover any structural improvements, betterments, and additions made or acquired by the individual unit owners.

All Inclusive coverage is the most comprehensive form of building property insurance available. It will cover all common elements and all structural items, fixtures, and equipment within an association's units, including the structural improvements, betterments, and additions made or acquired by the individual unit owners. Basically, All Inclusive building insurance covers all property within the units except the personal belongings brought into the units by the individual owners.

Over the years, lending and statutory condominium act requirements have evolved to produce association bylaws that most

commonly require condominium associations to purchase at least Single Entity building insurance. The benefits of Single Entity coverage for a newly created condominium are substantial for lending institutions, community managers, boards of directors, and unit owners. Where Bare Walls coverage would require multiple individual adjustments and repairs of a single property loss affecting common elements and units, Single Entity coverage requires a single adjustment of a property loss affecting the common elements and units (by the association's insurance company adjuster).

For a newly created condominium, it is very easy for all concerned parties to understand the extent to which the association's master property insurance will cover physical damage losses insured under a Single Entity contract. In a very real sense, the association's Single Entity coverage acts as All Inclusive coverage. Since no structural items, fixtures, and equipment within the units have been improved or upgraded, and (generally) because there have been no structural additions made to the units, the newly created condominium's Single Entity Insurance covers everything within the units except the unit owners' personal property.

As a condominium ages, however, the scope of the association's Single Entity coverage regresses somewhat, to a form of insurance that approaches Bare Walls coverage, at least in theory, if not in practice. This is due to the improvements, betterments, and additions that are made to the units (that potentially increase with the age of a condominium association).

It would be tempting to state that the increasing age of a condominium equals increasingly diminished Single Entity building property coverage. But before we go that far, keep the following points in mind:

- Single Entity Insurance covers the like kind and quality replacements of the structural items, fixtures, and equipment made to the units. If a unit

owner simply replaces a dishwasher or floor coverings that were originally installed within the unit with a like kind and quality dishwasher or floor coverings, those simple replacements should be covered items under the association's Single Entity property insurance.

- For those structural items, fixtures, and equipment within a unit that have been replaced and improved, the individual owner is only responsible for covering the improvement portion of the item in question. If you replace an "average" refrigerator that would cost \$500 to replace with an "above average" refrigerator that will cost \$1,000 to replace, the association's Single Entity coverage will pay for the first \$500 of loss to your new \$1,000 refrigerator.
- If no improvements, betterments, and additions have been made to the units, the Single Entity coverage remains as strong as All Inclusive coverage, regardless of the age of the community.
- Condominium association insurance company loss adjusters tend to be generous (in favor of the individual unit owners.) when determining the association's insurance responsibility concerning losses to the units when Single Entity building property coverage is provided. The third or fourth owner of a condominium unit generally has little, if any knowledge as to what was originally deeded structural items, fixtures, and equipment within his or her unit, and neither does the association's insurance company loss adjuster. Because of the association adjuster's lack of knowledge, all damaged structural and appliance items are typically covered without question.

The key phrase to be considered is "obvious improvement." If it is *obvious* that your condominium unit has been improved with "above average" equipment, (cabinets, kitchen and/or bathroom fixtures, wall coverings, floor coverings, shelving, decking,) the limitations inherent in your association's Single Entity building property coverage technically apply, notwithstanding any potential generosity offered by the association's insurance company loss adjuster. Additionally, be aware of any structural additions that have been made to your unit. Your association's Single Entity building property coverage is not intended to cover the structural additions made to your unit.

Condominium association managers and board members should do their very best to make the residents within their communities aware of their individual building property insurance responsibilities. If your association's building property is insured on a Single Entity basis, which is most often the case, the unit owners should be informed about the benefits and limitations of that coverage. This information should be conveyed not only to the owners who reside in their units, but also to the unit owners residing elsewhere. Individual owners who lease their units are subject to the same property coverage limitations that are applicable to the resident unit owners.

The building property coverage solution that will fill the gaps potentially left open by the popular Single Entity insurance can be found in most, if not all, condominium unit owner policies offered by an array of insurance providers. The widely used Insurance Services Office (ISO) HO-6 Unit Owners policy provides Dwelling Insurance that covers:

1. "The alterations, appliances, fixtures, and improvements which are part of the building contained within the [unit owner's] premises"
2. "Items of real property which pertain exclusively to the [unit owner's] premises"
3. "Property which is [the unit owner's] insurance responsibility under a corporation or association of property owners agreement"
4. "Structures owned solely by [the unit owner] ... at the location of the residence premises"

Unit owners can generally purchase as much "Dwelling" (or building) property insurance as needed. The premium to properly insure the structural improvements, betterments, and additions made or acquired by the individual unit owner will vary depending on the amount of coverage that is needed, but is *typically* reasonably priced by all insurance companies offering such coverage. ■

*Chris Manougian is an insurance agent with the John Manougian Insurance Agency, Inc., in Silver Spring, Maryland.*



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