

Purchasing home insurance in a multi-unit building

What you need to know

Making sure that you can buy insurance for any new home you're purchasing is really important, especially if the home is attached to other homes. This could be two or more units attached to each other (each divided by a wall), one or more blocks of townhouses or a multi-storey apartment building.

You can insert a 'subject to insurance' clause (i.e. "Subject to availability of insurance suitable to the purchaser") into any sale and purchase agreement before it is signed, even for standalone dwellings. Remember, you will need this insurance if you are borrowing money to purchase the property. If intending to purchase at auction it is important that insurance has been confirmed in advance of the auction.

Property Ownership Types

There are four main types of property ownership in New Zealand – freehold, unit title, cross lease and leasehold.

Freehold, also known as **fee simple**, is the most common ownership type in New Zealand for standalone dwellings.

Unit title ownership is most common in a building development where there are multiple owners.

In a **cross lease**, you own a share of the freehold title in common with the other cross leaseholders and a leasehold interest in the particular area and building that you occupy.

Leasehold is when someone else owns the land. You purchase an exclusive right to possession of the land and the buildings on it for a specific period of time according to the terms of the lease.

An insurer will consider the type of home (e.g. free-standing dwelling, terraced house, apartment) when deciding whether to offer cover. Different insurers have different guidelines but similarities are likely to apply in respect of these home types:

Multi-Unit Buildings

Unit Titles require Body Corporates

TIP



If a property has been set up as a Body Corporate this will be shown in the record of title (also known as the certificate of title) as being Unit Title. Becoming a unit title holder means you automatically become a member of the body corporate.

Body Corporates are set up to manage property consisting of multiple individually owned homes, apartments or units. Amongst other responsibilities under the Unit Titles Act, a Body Corporate is required to insure all the units in the building as well as property that is jointly owned by all unit holders, for example driveways, corridors, lobbies, and gardens. This leaves no gaps in cover. Body Corporates are also required to buy replacement insurance where possible. This means 'replacement (sum insured or floor area based)' or 'new for old' cover rather than 'market value' or any other lesser type of cover.

The Body Corporate's secretary or chairperson will arrange to insure not just the common property but the entire building, including all units. The cost of the insurance is then incorporated into the Body Corporate fees charged to each unit owner so that everyone pays insurance for their unit plus their share of any common property. It means that all unit holders have building insurance.

There is also a second benefit because one insurance company is responsible for all building claims. This makes the claims process simple and easy. For example, where a shared wall between two units is damaged there is only one policy to lodge a claim against and one insurer will settle the claim.

Fee Simple/Freehold in Multi-Unit Buildings

TIP



Not all multi-unit buildings have a Body Corporate set up as some are fee simple/freehold. Different insurers have different guidelines about insuring individual units in multi-unit buildings. The number of units in a building may also affect an insurer's decision to offer cover, the type of cover and the cost.

Complexities will arise at claims time if some units are not insured or the level of cover differs between units and insurers.

For these reasons many insurers will not agree to insure individual units of a multi-unit complex.

Generally if an insurer does agree to insure just one unit within such a property they will not provide cover for common (shared) property such as driveways, playground, BBQ area, swimming pool, gymnasium, so there are potential gaps in cover, unless the owners committee arranges insurance under a separate policy.

If this is your situation, you should discuss your insurance requirements with your insurer, insurance broker or solicitor to make sure your investment in that property is protected.

Duplex, Semi-Detached Properties and Townhouses

The same considerations outlined above apply to homes that are attached to just one or two other properties. The more independent a property is, the more likely an insurer will be to offer cover for an individual unit. Attachment to other properties by side walls is preferable to property attached above or below and it is preferable if there is no or little common property to insure.

'Easements' may be documented in property titles and can apply to any type of property. Easements show whether joint responsibility or obligations apply to property owned by or shared with anyone else. Easements can be hard to interpret so ask your solicitor to explain what any easements mean for you.

Cross Lease

In a cross lease, you own a share of the freehold title in common with the other cross leaseholders and a leasehold interest in the particular area and building that you occupy. This situation alone does not usually influence an insurer's decision to offer cover or the terms of cover, however it can affect claims. For example, other title owners of the cross-lease property could refuse to allow materials to be delivered or builders to access/work on site without their permission, delaying repairs, especially if the driveway is going to be blocked.

Your solicitor can provide more information to help you with your understanding of cross leases.

Commercial Use

If any part of a multi-unit building is used to run a business or for earning income it may be necessary to insure the whole building, including any residential units, under a commercial policy. There are implications here for EQCover which is insurance provided by the Earthquake Commission for residential property only.

Some insurers will also look to offer commercial style insurance, or insurance specially designed for multi-unit buildings when there are more than a specified number of properties (individual dwellings/units) involved or a building has more than a specified number of storeys.

You should discuss your insurance requirements with your insurer, insurance broker or solicitor to make sure your investment in that property is protected.

Your insurer will ask you for this information about the building

- The address of the property.
- When it was built.
- What it is constructed of i.e. brick, weatherboard, stucco, type of roof, etc.
- The size and rebuild value of the homes or units, any common property, outbuildings and features on the site, (see the ICNZ's brochure on calculating the area of a house for insurance).
- How many homes or units comprise each individual building, as well as how many levels per unit or per building.

- How the homes or units are laid out and attached to each other.
- If any building has a heritage listing.
- Whether there is any commercial use within any building.
- If purchasing an older home, the insurer may also need to know whether the home or building has been:
 - » Re-wired
 - » Re-lined
 - » Re-plumbed
 - » Re-piled
 - » Re-roofed
 - » Approximately when this work was carried out.
- How you intend to use the property e.g. will it be owner occupied or rented out.

When Cover Begins

Arrange your insurance prior to your settlement date. Make sure the start date is the same as your settlement date on the Sale and Purchase contract. If the vendor has insurance, they should keep it current until settlement date to ensure there are no gaps in cover.

Home Contents

Insurers will not generally require the contents policy to be held with the same insurer covering the home or unit, nor that all units in a building need to have their contents insured by the same insurer.