

A close-up photograph of a plumber wearing a blue hard hat and safety glasses, focused on working on a pipe. The background is a utility room with various pipes and equipment.

REAL ESTATE INDUSTRY GUIDE

Property Manager's Guide to Water Damage Prevention

Protect your property and tenants from plumbing and infrastructure failures.

Property Manager's Guide to Water Damage Prevention

As a leading loss driver and real estate's top insurance headache, water damage should be high on every property manager's list of concerns. Improving plumbing infrastructure and creating a risk mitigation plan can be the difference between sinking or swimming until your next insurance renewal.

It's easy to associate water damage issues with headline events, such as February 2021's Texas weather disaster that froze pipes and led to massive water damage. But weather-related events leading to burst pipes from freezing temperatures are less common than general plumbing or appliance failure.

For small business, it's estimated water and freezing damage comprise the second-most common type of property and liability claim, with an average claim of \$17,000.¹ And non-weather-related water damage claims are the second-most common type of homeowner insurance claim, averaging more than \$10,000 per event. Approximately 14,000 people face water damage emergencies daily in the United States.²

It's also a common misconception that owners of older buildings are the primary victims of plumbing failures. Relatively modern systems can also fail due to improper installation, poor product quality or connection types, and the effects of water chemistry on plumbing systems over time.

¹ The Hartford.com, "[More Than 40 Percent Of Small Businesses Will Experience A Claim In The Next 10 Years](#)" March 30, 2015

² iPropertyManagement.com, "[Water Damage Statistics](#)," accessed March 1, 2021.



Frequency Versus Severity

Water damage coverage is provided in most real estate insurance policies. However, real estate owners should never mistake coverage as a reason to ignore deteriorating infrastructure.

A high frequency of claims — often due to poor maintenance or the lack of a mitigation plan — can lead to paying out deductibles repeatedly and a loss of coverage. Sometimes, poor maintenance isn't the culprit, as a new water heater or pipe can burst and cause major damage. But the frequency of water damage claims is usually a bigger issue at renewal than a single severe claim.

“Trading money” with the insurance company is a vicious circle in which the insured pays the deductible — and often increasingly higher premiums — in return for damage payouts for frequent water damage claims. Breaking out of that cycle means taking the precautions necessary to mitigate risks, decrease claims frequency and reduce premiums with a higher deductible that, hopefully, you'll never need to cover.

5 Ways to Minimize Your Risk — and the Cost — of Water Damage

The type of plumbing system within your building can either mitigate or increase the risk of water damage. Because of the losses involved, many property insurers will refuse to quote policies for properties with certain types of plumbing systems (although most carriers decide to quote based on the age of the building and the frequency or severity of claims).

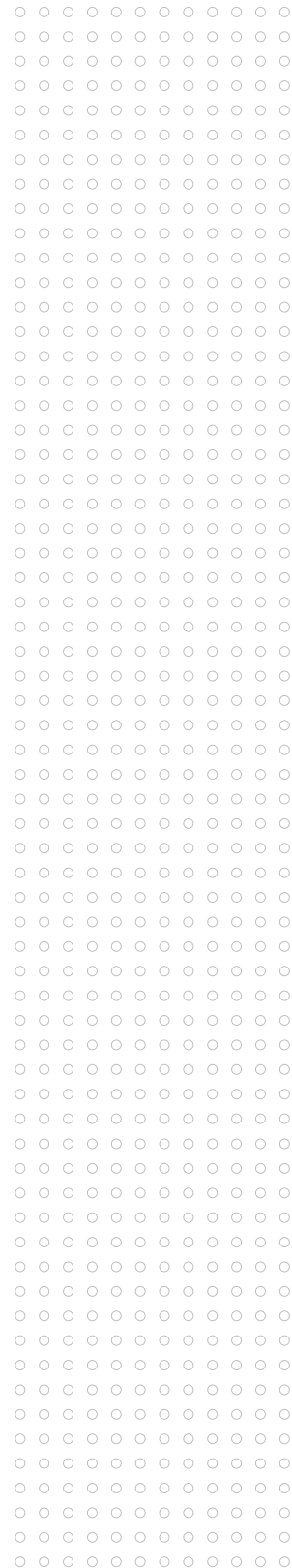
Others may accept the higher risk but demand a higher premium or deductible (which can result in more carriers able to quote and create more competition) or include significant coverage exclusions. A building owner's plan for how to mitigate the damage or recover after a claim can also affect the cost and availability of coverage.

Here are five ways building owners can lower their risk of water damage, protect their property and reduce the cost of coverage.

1. Perform a cost-benefit analysis. It is crucial to understand the type of plumbing system within your building and the risks that come with it. Conducting a cost-benefit analysis based on plumbing system materials can help you determine if remediation is the right course of action, whether that's a complete replacement of all components, replacement of fastening systems, replacement of fittings between plumbing types or all of the above.

Here are the most common types of plumbing systems, and their strengths and weaknesses:

- **Galvanized Steel:** Most buildings with galvanized steel piping will need a total system replacement. Manufactured only until the 1970s, any remaining galvanized steel piping is well beyond its anticipated life span. The zinc coating in galvanized steel pipes breaks down over time and gets into the water, making it as much a safety as a cost issue.
- **Copper Piping:** Copper piping is one of the most common plumbing types in North America and considered safe and reliable. Differentiated by the thickness of the pipe walls, copper piping can be found in residential buildings (M-Type), pressurized systems (L-Type, recommended for most applications) and outside or underground water lines (K-Type). Copper piping is not ideal for areas with low pH levels in the water as it may lead to corrosion and pinhole leaks. Evaluate the age and quality of copper pipes when conducting a cost-benefit analysis.



- **PEX:** PEX piping is a common and highly-trusted solution, and unlike copper, low pH levels do not affect PEX. However, PEX can have leaking and bursting issues when brass fittings used to connect PEX are exposed to high levels of chlorine or if the pipes are exposed to sunlight for too long. If those two elements are true — or you're having frequent water damage as a result — it may be less costly to replace PEX piping than simply fixing things and hoping for the best.
- **Poly-B:** A cost-effective alternative to copper piping, insurers have grown wary of Poly-B due to frequent failures when installed in combination with other piping materials or plastic fittings, as well as in buildings with high water pressure and temperature. It's also difficult to spot deteriorating piping as Poly-B breaks down from the inside out. Those concerns make it important to consider replacing all or part of this type of pipe.
- **KITEC:** Largely used in Canadian buildings from 1995 to 2007, KITEC plumbing has been subject to litigation and is no longer manufactured following recalls. Of all the plumbing systems listed here, it is the most likely to crack or burst open causing major damage and has the shortest lifespan. Many insurers refuse to cover buildings with KITEC. If you have KITEC plumbing, it is likely that you'll have to replace it — if you haven't already.

2. Develop a water damage mitigation plan. The larger the damaged area, the more expensive the repair. Every additional square foot of damage results in more time, materials and manpower to restore it. A water damage mitigation plan will help. Take the following into consideration when putting a formal water mitigation plan into place:

- **Have a water remediation vendor at the ready.** These companies will use moisture detection equipment, dehumidifiers, fans, water extractors and specialized structural drying equipment to stop the problem and minimize damage. Insurers may offer lower rates when building owners have strong remediation plans and loss-recovery programs.
- **Plan how to keep your building open.** Severe water damage can lead to a significant loss of revenue for businesses. Having a plan to keep your buildings operational — whether you are running your business out of them or are a real estate operator — can save you and any tenants during an emergency.
- **Purchase business interruption (BI) coverage.** The BI endorsement covers lost business income following water damage during the restoration period, which begins when the damage takes place and lasts until the location is ready for full operations. A loss of rent can be considered a BI claim. Building owners need to request BI inclusion in their property policy. Accurately reassessing annual rents will help ensure you've got the right amount of coverage at each policy renewal.

DIFFERENT PIPING SYSTEMS AT A GLANCE

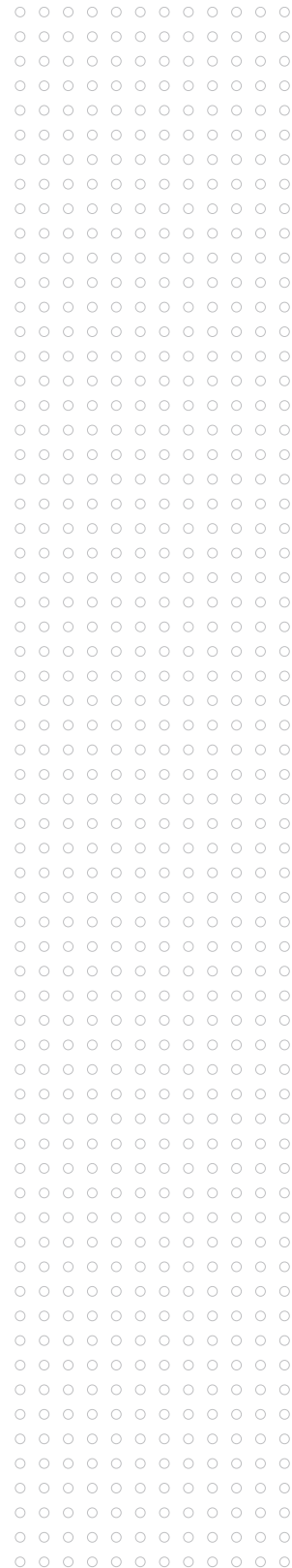
Galvanized Steel	No longer manufactured, total system replacement is likely needed
Copper Pipes	Common, safe and reliable; not ideal for areas with low pH
PEX	A trusted alternative to copper with some known leaking issues
Poly-B	Cost-effective alternative to copper; frequent failures when installed with other piping material and fittings.
KITEC	A discontinued, problematic piping that some insurers will not cover

3. Maintenance, maintenance, maintenance. Routine inspections of your plumbing infrastructure are important, and should be a part of renewal applications to insurers, especially when there's been previous claims. Thorough plumbing inspections will include the following:

- Identification of the types of plumbing systems and materials, including piping and fittings
- Inspection for leaks in any exposed piping, corrosion and signs of water damage under sinks, behind appliances or in wooden flooring
- Inspection of the building's exterior for sewer pipe backup
- Verification that the building's water pressure is calibrated correctly
- Inspection of tub and sink drainage speeds
- Inspection of the water heater for any signs of corrosion or sediment build-up

4. Consider boiler and machinery (BM) or equipment Breakdown. Damaged boilers and other machinery can cause extensive water damage. BM or EB insurance covers the cost of repairing or replacing damaged equipment, along with the business' losses incurred from the equipment not functioning. This extra coverage is best suited for hospitality operations and manufacturers in which 15% of the facility is boiler machinery and has equipment that runs constantly.

5. Take a larger deductible. A higher deductible means you'll be responsible for a greater amount of water-damage claims costs. A higher deductible also means a lower premium. This strategy makes sense for well-maintained buildings that have a lower overall risk threshold. It does not make sense, however, if your facility is in a constant cycle of claims. And many real estate owners would rather swallow higher premiums than risk paying out a high deductible.



Knowledge is Key

The more you know about your building's plumbing systems, the more equipped you'll be to make the right decisions for your property. That knowledge may mean a complete replacement of the building's plumbing system, or implementing remediation and business continuation plans. Every preparation you take to combat future water damage will provide coverage opportunities in the present.

What does a water mitigation plan do?

It helps minimize damage, limits the severity, and provides peace of mind in case of an incident. Here's the key steps in building such a plan:

Pick a lead and identify key people. Designate a person who works on facility management to lead the program. The plan lead must identify key personnel available at all times who can initiate emergency procedures, damage mitigation, and clean up and restoration services. And set up a file with a water/fire remediation company — and have them on speed dial in case of an event.

Identify detection methods. These include visual or manual detection, including base building and sump pump inspections, as well as automatic detection alarms and systems. Document communication procedures, which should highlight the need to communicate every leak found on the property.

Understand the schematics. Make sure key personnel are familiar with the property's interior and exterior schematics, including the main sprinkler system, piping and water loop systems. Create diagrams to demonstrate valve shutoff procedures.

Make a list. List all critical equipment or operations sensitive to water damage. This could include tenant equipment, the main electrical room and electronic data process center. If possible, ensure that water carrying systems do not run above critical equipment.

Document everything. Document water damage emergency procedures, including damage mitigation for sprinkler leaks, frozen pipes, water infiltration and floods. Include contact information for the program lead handling loss procedures, well as emergency contact information for plumbers, sprinkler contractors, your HUB claims contact and insurance carrier claims contact.

Have site mitigation procedures and equipment at the ready. Have a documented, illustrated program for all potential restoration procedures. Ensure the availability of emergency materials and emergency liquid leak restoration contractors. Spill and emergency pipe repair kits should be easily accessible. A sample kit might include a copy of the water damage mitigation plan, plastic sheets to cover electronic equipment, plumbing tools, portable sump pumps and wet vacuums and fans.



CHECKLIST

Choosing the Right Insurance Broker

You want to get advice from people who understand your business and know your industry. Before choosing your insurance broker, be sure to ask these important questions

How long have you been involved in the real estate industry?

You don't want to be the first. Your business is risky enough.

What percentage of your book are clients like me?

You want to confirm that your broker spends the majority of his or her time in your industry and understands emerging trends and issues that could impact your business.

How many insurance carriers can you bring to the table?

Not all brokers have access to specialty insurance companies who serve the real estate/property market. It's important to align with a brokerage firm that is in good standing with carriers and has the best chance of securing optimal coverage and pricing for your business.

In addition to property insurance, what expertise and services do you offer?

Your broker should introduce you to certified risk managers who know your industry and can help you address safety issues and advise you on technology solutions that are appropriate to your business.

Can you review my contracts and advise me on risk exposures?

Experienced brokers will review insurance clauses in all contracts and advise you on changes you should make at no additional charge. They should direct you to attorneys who know your business and can review your other business contracts for liability exposures.

What experience does your team have when it comes to claims?

When you file a claim, both your broker and your account management team should be committed to advocating on your behalf with the insurance carrier.

What other services or expertise can the broker offer?

Ask if your broker can introduce you to their counterparts in employee benefits consulting. There are so many new ways to support the needs of today's workforce and you need a specialist to advise you on benefits.

As a real estate owner, developer or operator, you'll need an insurance broker who is structured to handle your needs in a seamless manner and avoid gaps in coverage. Working with a single brokerage firm with knowledge and experience on both sides of the border reduces your risk and your administrative workload.

Strategic support that puts you in control

When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. With HUB, you have peace of mind that what matters most to you will be protected — through unrelenting advocacy and tailored solutions that put you in control.

For more information on how to manage your insurance costs, reduce your risk and take care of your residents and employees, contact a HUB real estate insurance specialist.

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