

IN BUSINESS Las Vegas

Commercial Real Estate Guide
May 2008

cre | Realty Check: 'Green' insurance

Sustainable insurance for your sustainable project

Recently, one of the biggest real estate buzzwords has been "green." Green buildings pose challenges to developers and builders challenges that begin at the project's conception through construction, completion and certification. But the challenges don't end when the certificate of occupancy is issued.



J. Bradd Greene
Mc Fadden Insurance

Frequently overlooked is how the building is insured.

When it comes to protecting an investment, many building owners and tenants tend to make a crucial mistake. Many believe all insurance policies are the same and this common misconception is magnified with green buildings. Often, green-building owners don't realize that a traditional insurance policy may leave them underinsured. Green buildings

have insurance needs that a traditional insurance policy may not address.

Green properties have unique features requiring added enhancements to the standard insurance policy. Including the enhancements is important to assure that the building owner be made whole following a loss. The enhancements are determined by the unique features of each particular property. The values, features, and quantifiably potential loss must be determined and established during the underwriting process.

As a result of the green-building trend, several green insurance products have been introduced. Some products assure that a certified green building will be rebuilt and returned to the same level at which it was originally certified. In some policies, this even includes a certain limit to cover the cost of commissioning and certification. Coverage is offered for office, retail and industrial buildings as well as mixed-use, multi-family and single-family projects.

Always be sure that in the event of a loss, the building will be repaired or rebuilt to the same or better standard and certification level than when it was original-

ly built. For certified green buildings, this means everything from debris removal to specific efficient fixtures, low VOC products, and covering the costs of the commissioning and certification processes.

For buildings not owner occupied, it's important to understand who is responsible for insuring particular parts of the building. While green-building owners should know about the insurance coverage needed to protect their investment, building tenants should also know their responsibilities and liabilities. Some green-project owners will build a core and shell that carries a green certificate and then leave the interior certification to the tenants. Others choose to develop the entire building, including the tenant improvements (T.I.s) to green-certification levels. In these buildings, although the tenants are getting turnkey space, they may be responsible for the cost and replacement of the T.I.s in the event of a loss, a situation similar to a commercial condo where the building exterior is owned separately from the interior. In these cases, the lease tenant or condo owner must be sure that their specific insurance policy has been developed to protect their investment as well as meet any contractual liabilities that exist with the building owner or association.

In addition, building owners should explore green insurance options for existing, traditionally built buildings. With a traditional-building policy, the portion of the building that is damaged will be repaired, or replaced, with green products and using green methods. This covers everything from debris removal and recycling to using low VOC paint. If the building qualifies for certification, this policy may also pay for the commissioning and recertification processes.

It's also important to insure green buildings under construction with a course of construction (COC) insurance policy. Most standard COC policies leave green-building projects underinsured and, similar to the completed-building policy, enhancements can be added to the COC policy during the underwriting process.

Whether it's a new building, an existing space being renovated to green status or a historical preservation project being revitalized using green standards, each has its own set of protection needs. Although there are some off-the-shelf products, it is critical to work with a knowledgeable insurance agent or broker in order to ensure your property is properly protected, whether you own or lease the building. Be sure to research options and spend time reviewing your policy, then work with an insurance professional who understands the special needs of green buildings. **cre**