

Sustainable Insurance for Your Sustainable Project

Over the last few years one of the biggest buzz words in real estate has been green. As more and more green or sustainable buildings begin to come out of the ground, we realize the future of building is upon us.

Green buildings pose many challenges to developers and builders. Those challenges begin at the very conception of the project from selecting the proper site and design, all the way through construction, completion and certification. But they certainly don't end when the Certificate of Occupancy is issued. Frequently overlooked, an imperative step to the green building process is how the building is protected or insured.

When it comes to protecting their investment, many building owners and tenants tend to make a crucial mistake. Many believe all insurance policies are the same, and this common assumption is magnified with green buildings. While the owners of green buildings realize their buildings are different, many don't realize that a traditional insurance policy may leave them under insured. Whether the building carries a certification issued by United States Green Building Council or Green Globe, or it has no certification but it is built with sustainable features, the building has insurance needs that a traditional insurance policy may not address.

Green properties have many unique features that require enhancements be added to the standard insurance policy forms. This is done in order to assure that the building owner be made whole following a loss. The enhancements needed are determined by features of the particular property. The values, features, and quantifiable potential loss must be determined and established during the underwriting process.

As a result of the trend toward green building, there have been several green insurance products recently introduced. Some of these 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.

There are a few simple things to keep in mind when insuring your green building. First and foremost, you should 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 originally built. For certified green buildings, this includes handling the removal of debris to specific efficient fixtures, low VOC products, and covering the costs of commissioning and certification processes.

For buildings that are not owner occupied, it is important to understand who is responsible for insuring particular parts of the building. While owners of green buildings should be informed about the insurance coverage needed in order to protect their investment, the tenants of these buildings should also understand what their responsibility

and liabilities are and how to ensure they are properly covered. Some owners of green projects 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 turn key space, they may be responsible for the cost and replacement of the T.I.s in the event of a loss. This situation is similar to a commercial condo where contractually 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.

As building standards rise to new, more sustainable levels, building owners should explore green insurance options that are available for existing traditionally built buildings. With this type of policy, in the event of a loss to a traditional building, the portion of the building that is damaged will be repaired, or replaced, with green products and using green methods. This starts with removal and recycling of debris from the damage all the way to using low VOC paint, and everything in between. If the building qualifies for certification, this policy may also pay for the commissioning and re-certification processes.

Insuring a green building during construction is another consideration that is often overlooked. Most developers, general contractors, or building owners will secure a “course of construction” (COC) insurance policy to cover the building while it is being built. Those same unique features and processes addressed in the completed building’s insurance policy also need to be addressed in the COC policy. Most standard COC policies will leave a green building project underinsured and similar to the completed building policy, enhancements can be added to the COC policy during the underwriting process.

Whether it’s a building being built from the ground up, an existing space being renovated to a green status or a project deemed Historical Preservation being revitalized using green standards, each has its own set of protection needs. Although some of these insurance programs are available as an off the shelf product, 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 your building. Be sure to research the options and spend time reviewing your policy and work with an insurance professional that understands the special needs of green buildings.