

# INSURING SUSTAINABILITY

Green upgrades and retrofits require suitable insurance during renovation and after.

BY PAUL BAKER

When property managers and landlords talk of “going green,” they often cite the good exposure that comes with doing so. Renovating a building to make it environmentally friendly can be a marketing hook and can create opportunities for awards and citations bearing the LEED seal of approval.

However, there are some risks to going green. Namely, green renovations are unique and may require special insurance coverage. Values must be determined and written into a policy before a loss occurs. For example, the LEED certification process in itself incurs a cost. In the event of significant damage to a building, recertification may be required and that must be addressed in an insurance policy.

Furthermore, some upgrades to pursue LEED certification can be expensive. What happens if the contractor misses the mark and the property does not achieve LEED certification? Property owners and managers should require contractors to carry insurance to address this potential issue.

## WHY LEED?

LEED is a third-party certification program and the nationally accepted benchmark for the design, construction and operation of high-performance green buildings. According to the U.S. Green Building Council, 35,000 projects are currently participating in the LEED system, comprising more than 4.5 billion square feet of construction space in all 50 states and 91 countries.

Many companies consider sustainability a key factor in their office space occupancy plans, and half of corporate real estate executives say they will pay extra for space in green buildings, according to the fourth annual Sustainability Survey conducted by CoreNet Global and Jones Lang LaSalle.

Conducted in the fourth quarter of 2010, the survey results reveal a corporate real estate industry in the process of reconciling the focus on reducing environmental impacts of buildings with the need to control costs and support corporate financial performance. Key findings of the survey include:

- Sustainability is a critical business issue today for 64 percent of respondents, and 92 percent consider sustainability criteria in

their location decisions.

- The number of respondents willing to pay more for green leased space jumped from 37 percent in 2009 to 50 percent in 2010

- Thirty-one percent of corporate executives ranked employee productivity and health as their top sustainability concern, and an additional 11 percent rated employee satisfaction as the most important factor.

Given the enormous marketing edge that going green confers, it is certainly understandable why property managers would be interested in implementing environmentally friendly upgrades. The LEED seal of approval is a business tool as powerful as the slickest brochure and glossiest photo.

## PROTECT YOUR INVESTMENT

When renovating or retrofitting a building, it is important to lessen your risk exposure.

**Put everything in writing.** Some green renovations can be expensive. The cost to bring an existing building up to U.S. Green Building Council certification is typically 3 to 20 percent of new facility costs. While annual operating budgets will decline, the typical payback period is 5 to 10 years. Building owners pay a great deal in anticipation of LEED certification so it is especially important to put everything in writing. If the job is not completed to standards, or if the energy-savings claims do to bear out, owners may be able to hold the contractor and designer liable.

**Check your contractor's insurance.** Speak with a construction insurance and surety bonding expert about your contractor's insurance coverage before beginning a project. A contractor's typical general liability policy should cover the building owner in the event of bodily injury or property damage during the renovation.

Make sure the insurance is in place to protect your investment as well. A contractor's general liability policy does not cover the contractor's failure to achieve LEED certification or to achieve anticipated energy savings. However, a contractor's professional liability policy — also known as design-build or errors and omissions coverage — is designed to provide coverage for this as well as other

negligent acts within the service that is being provided. Building owners should require the contractor to carry continuous coverage after the renovation for the duration of any promised energy savings. Similarly, building owners should have an errors and omissions policy that would protect them in the event a tenant sues for misrepresentation related to energy savings or LEED building codes.

**Update your insurance policy.** A property's insurance policy should reflect the value of the upgraded building. It should address new systems, such as vegetated roofs and alternative energy and water systems that need to be covered separately, and it should cover environmental re-certification should any portion of the building be damaged and require reconstruction. Talk with your insurance agent about plans for green upgrades before starting any work. Your agent will also help you or your contractor secure a builder's risk insurance policy that will protect all parties during the upgrade should a fire or loss occur.

**Look for a LEED contractor.** The unexpected (and unwelcome) can happen during renovations. For example, a contractor that has little experience with LEED requirements could put in the wrong HVAC or lighting system, which prevents achieving the projected LEED credits and negates energy cost savings. The owner could miss out on hundreds of thousands of dollars in tax savings — or have to come up with the money to hire a knowledgeable contractor to get the project up to the required LEED grade. However, a property owner or manager is somewhat indemnified by hiring a LEED-experienced contractor. Hire a contractor that has experience designing and building to LEED standards. Ask for to see completed projects similar to the work you are bidding. Call past clients and see if energy savings claims check out.

If you decide LEED certification is worth the cost and effort, make sure you protect your company during the renovation process and protect your investment with the appropriate insurance coverage.

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