

Is Your LEED Certified Building Adequately Insured?



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As a building developer/owner you invest a lot of money in building a LEED certified project. Has your broker discussed the potential gaps in a traditional property insurance policy versus a policy enhanced to include the 'green' endorsement now offered by many carriers?

Most people involved with the real estate industry are aware of LEED certified status and what is required to meet that status. What you may not be contemplating is how the status will impact your insurance program, both short and long-term on a given project or building. There maybe an assumption that because a LEED certified building is typically built to meet their very rigorous standards, insurers would provide some credit or reduction in premium for a LEED certified building. Unfortunately, because the insurance industry uses historical statistics to forecast losses and develop premiums, most do not feel there is enough reliable data on LEED certified buildings to provide any form of credit or reduction.

We have seen increasing pressure to build or convert existing properties into LEED certified buildings. As owners and developers you should have some perspective on how insurance companies are responding to this growing issue and what it can mean in the event of a property loss. In the last few years most property carriers have developed either a 'green' policy form or endorsement to address items not included in the traditional policy form.

At a minimum your broker should be discussing the following items with you as part of any regular discussions. The traditional property policy is designed to rebuild the structure as it existed prior to a loss using traditional construction methods. The challenge in dealing with a LEED certified building is that some of the materials and construction methods are more expensive than in a traditional construction project.

Insurance adjusters may not agree to pay for the more expensive materials and methods unless the policy has been amended appropriately. These additional costs can include:


- The increased construction cost of using 'green' products or LEED certified materials or construction methods
- The additional cost of Energy Star appliances, lighting and electrical systems, low-flow plumbing fixtures and other energy efficient plumbing systems and sensors
- The cost of using environmentally friendly materials for carpets and floor coverings, furniture, cabinets and interior paints and primers
- The cost of replacing vegetative roofs
- The cost to use materials that are sustainable such as bamboo, eucalyptus or materials containing recycled content
- The additional cost of disposing of damaged materials in an environmentally friendly and sustainable way
- The increased professional fees to hire a LEED Accredited Professional to oversee the reconstruction of a damaged LEED building and engineering or other consultants to oversee repairs and other building systems commissioning expenses.

The insurance companies are all trying to address two issues, 1) rebuilding an existing LEED certified building to the same or higher standards and 2) rebuilding an existing building to upgrade to LEED status. To address these increased exposures some insurance companies are offering a specific sublimit, which is adjustable depending on the amount of premium you wish to pay and also depending on the limit of coverage you opt to purchase. Other companies are only agreeing to offer a 'green' endorsement if a building has LEED certification status prior to a loss.

We are also working with pollution carriers to develop endorsements to address the LEED certification issue within their policies as well. We anticipate in 2009 most pollution carriers will include a quote to add their 'green' endorsement to their proposals for both owner's and contractor's pollution liability.

With the exception of one carrier both the property and pollution underwriters are being required to charge additional premium to add this coverage to their existing policies.

While the insurance industry is generally taking the position that a LEED-certified building is positive both from a social and ecological standpoint, they do not have enough firm data to allow them to adjust their rate structure at this time. We



anticipate this will change over time and we will begin to see some premium reductions, depending on how construction defect claims specifically related to LEED certified buildings develop over time. The insurance industry continues to be very interested in this topic and has tried to find creative ways to meet the challenges faced by these increased costs associated with a LEED certified building.

For your next renewal, we suggest you discuss and work with your carriers to address these issues. Parker, Smith & Feek can help. Our Real Estate Practice has 'green' experience and is eager to help you navigate through these special exposures.