

INSURING REHABILITATIONS on Main Street

By Genny Dill

One of the most important, and most expensive, components of Main Street revitalization is the rehabilitation and adaptive use of the historic buildings that make Main Streets unique. Neglect by building owners causes serious problems in many older commercial districts. Many historic buildings that have yet to be rehabbed cannot be occupied in their existing condition, nor would they make for a very good shopping experience. But leaving them empty is not an option either, hence the need for rehabilitation and reuse of these beautiful buildings.

“Rehabilitation” can be as small as making simple cosmetic updates, or as large as a full-scale restoration of both the interior and exterior of the building. Smaller cosmetic changes, such as repainting or installing new fixtures, don’t usually require special insurance coverage. Additional insurance coverage, however, may be necessary to protect a property owner who is planning more extensive design improvements. Keep to a simple rule – if the rehabilitation involves more than one room, requires specialty contractors or engineers, or will make the building uninhabit-

able for tenants for more than 60 days, talk to an insurance professional about whether specialized coverage is needed.

When talking with property owners about building rehabilitations in your commercial district, be sure to provide information about ways to make the job site safe, ways to properly insure the building to protect the owner’s investment, and the steps a building owner can take to become a more appealing candidate for lower-cost insurance coverage.

Safety First

In planning the details of a rehabilitation project, the building owner should set aside some of the budget (and time) to ensuring the safety of the building and his or her investment. The most common causes of loss on a rehabilitation project are collapse, fire, and vandalism. Make sure that there is adequate exterior lighting, that all doors and windows are secure when the job site is vacated for the evening, and that there are plenty of fire extinguishers on site.

For more extensive projects involving structural alteration of smaller buildings, and for any larger rehabilitation, an architectural survey of the building is a wise investment. These reports are typically completed by an architect who will note problems that are urgently in need of repair or replacement and describe items that can be cosmetically addressed.

While these reports are not inexpensive (surveys can cost several hundred to several thousand dollars, depending on the size of the building, scope of the project, and services requested), they will provide a detailed condition report of the building, which is the foundation for a success-

ful work plan. The building owner’s insurance company may request this report in order for it to determine the eligibility of the project for coverage.

Hire experienced licensed contractors, and accept nothing less. Make sure that all contractors and subcontractors have their own General Liability insurance, and, if they have employees, Worker’s Compensation insurance. This will help protect the building owner, in the event that an employee of the contractor is injured on the job, or if the contractor causes damage to a third party while working on or behalf of the project.

Properly Insuring a Project

There are many types of property insurance policies, but there is only one correct way to insure a building that is undergoing rehabilitation. A standard property policy pays claims based upon a set amount decided at the beginning of the policy period; that amount is based upon an existing structure without adding construction costs. For rehabilitation projects, as well as new construction, property owners need to secure coverage on what is known as a “Builders Risk” policy.

While a standard property policy is typically written for a 12-month term, a Builders Risk policy can be written for the entire length of the project. If the project is not completed on or before expiration, Builders Risk policies can usually be extended. This is very important, as oftentimes contractors will encounter delays on historic rehabilitation projects, largely due to what they find underneath the items they are replacing – such as water infiltration discovered behind old roofing material.

A Builders Risk policy will insure not only the existing structure, but also the material and labor costs that incrementally increase the building’s value as the project progresses. A Builders Risk policy can also include coverage for:

- + “Soft Costs,” which are costs not directly related to construction, such as legal expenses, permit costs, architect fees, loss of income due to delayed opening, additional interest or assessments, and other financial losses caused by a delay in the project, but not directly related to labor or materials.
- + Materials that are on site, awaiting installation in the building.
- + Tools and equipment stored on the job site.
- + Materials that are stored at a temporary location or in transit to the project.

It’s important that a building owner change the insurance policy from a standard property form to a Builders Risk form *before* the start of the project. Many insurance companies will not write coverage for a rehabilitation project once the work is more than 20 percent complete. In addition, most standard property insurance forms have built-in clauses that will reduce or eliminate coverage when the building becomes vacant, or “unoccupied,” and/or construction begins.

Insurance companies are not unreasonable with these clauses. A standard property policy is rated based upon the occupancy and flammability of the building and its contents. The vacancy/unoccupancy clauses typically will have a time period associated with the clause, usually 60 days. This allows adequate time for small tenant improvements between leases.





Small cosmetic changes, such as repainting a building façade, don't usually require special insurance coverage.

need to run a business. Be safe – hire a licensed electrical contractor, and make this a top priority in the rehabilitation, even if the project starts as only “cosmetic” repairs.

+ Replace old pipes. Galvanized steel, cast iron, and terra cotta don't last forever, and we shouldn't expect them to. If these types of pipes are inside or going into the building, replace them! It's not a matter of if they will fail, but a matter of when. It's better to replace them now, than to replace them later – along with carpeting, wood floors, drywall, plaster, and other things that will be destroyed by water damage. Replace those old pipes with PVC and copper, and get a professional plumber to do the installation.

+ Replace old electric heaters and leaky air conditioning systems. This not only helps to prevent fire and water damage, but newer systems are also more environmentally friendly and can save hundreds of dollars a year on energy bills.

It's important to remember that “gradual wear and tear” and “lack of maintenance” are not covered under a property insurance policy. For example, if an air conditioning unit has been leaking for the past few years because a building owner is not properly maintaining the system, the insurance company does not have to pay damages! Remember that in order for property coverage to pay a claim, the loss must be due to a sudden “occurrence,” so even if an air conditioning unit is new and leaks because of poor installation, maintenance, or materials, the insurance company will not pay to replace or repair it. Water rings, stains, dry rot, and other signs of maintenance issues are easily spotted by a professional insurance adjuster. If the unit leaks due to a sudden event, such as wind damage, insurance coverage should apply.

Updating these four components will not only make a building safer for the public, it will help ensure longevity of the owner's investment, and make the owner a better candidate for discounts on a property insurance premium.

Most insurance carriers will require that these upgrades have been completed within the past 25 years. If they have not been, it may disqualify the building from any coverage. If the upgrades were done recently, and there is a strong maintenance program in place, the building owner may qualify for credit discounts on his or her insurance premium. Credit discounts are given in percentages. For maintenance and upkeep of buildings, the discount will usually be 5 to 15 percent; however, a building may qualify for up to 40 percent in combined premium credits when building upkeep and maintenance are paired with other available discounts.

Rehabilitating Main Street buildings can present new challenges, but the rewards are well worth the time and money spent. Anyone can build a strip mall, but it takes a special team of dedicated and hard-working individuals to revitalize

an entire Main Street. Rehabilitation projects are an important part of this effort, and properly protecting and insuring that investment will help to ensure that your Main Street will be a treasured place for years to come.

For the purposes of this clause, a building is usually considered “unoccupied” during a rehabilitation, even though there may be contractors on site. Construction clauses typically provide for cosmetic repairs and basic tenant improvements, but disallow coverage during any rehabilitation that involves replacement of building systems or the need for a specialized contractor or engineer.

What Insurance Companies Look for When Determining Coverage

When thinking about renovating or rehabilitating a building on Main Street, property owners need to remember some important improvements that should be made to all buildings (even to private residences):

+ Make sure the roof is in good condition. Repair or replace it if it is not. A building with a leaky roof does not make a great space for any business or residence. How often a roof needs to be replaced is based largely on the type of materials used; however, the roof should be inspected annually, and repaired immediately after wear is seen.

+ Update the wiring! Electrical fires are the most common cause of fire in commercial buildings. Yesterday's wiring is not meant to handle today's appliances. When the original electrical system was installed, the builder surely didn't anticipate that in 2007 those wires would be running fax machines, credit card machines, computers, and the many other devices people

Genny Dill has worked in the property and casualty insurance market for nearly 13 years, the first half in her native state of California. She joined National Trust Insurance Services in 2003 and provides technical assistance, education, and other insurance services to historic property owners, Main Streets, preservation organizations, and historic theatres countrywide.



When making significant improvements to a Main Street building, the owner should secure coverage through a “Builders Risk” policy that can be written to cover the entire length of the project.