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## **Insurance Tips for Building and Remodeling By Eric Paulos**

Whether you remodel, make structural changes to an existing building, or take the plunge to develop a residential building from the ground up, there are several important insurance considerations:

The standard apartment package insurance policy will not adequately cover the construction operations. Standard package property and liability apartment insurance policies are designed for your normal day to day apartment operations. There are many exclusions within policies and many insurance companies will refuse to place standard apartment policies on buildings where it is known that remodeling or construction is about to occur.

### **Types of Construction Insurance Policies**

There are a number of insurance policy types available to cover losses arising from operations related to the construction of a building. Some particular forms and inclusions or exclusions are more common to either residential or commercial construction projects.

#### **Property Insurance:**

'Course of Construction' (CoC), also called 'Builders Risk' – A specifically designed form of property insurance. It provides fire insurance, including extended coverage for risks such as fire, windstorm and optional coverage for events such as floods and earthquakes, for losses that might arise as a result of operations related to building construction. It can also prescribe exclusions that specifically relate to those operations. During construction, this form provides 'all-risk' coverage, including fire and vandalism, as well as 'in transit' coverage.

Course of Construction property insurance policies normally last only as long as the project lasts or one year, whichever comes sooner. When budgeting, keep in mind that projects taking over a year to complete most likely will involve renewing the policy on the anniversary.

When calculating the amount to insure on a Course of Construction policy, the coverage amount should include both the hard costs and soft costs of the project. Examples of hard costs include cost of materials, grading, excavation, concrete, framing, electrical, carpentry, roofing, and landscaping. Soft costs include architectural, engineering, financing, and legal fees, and other pre- and post-construction expenses. Normally the builder and the lender are included as additional insureds under the policy.

#### **Liability Insurance:**

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Assuming you are hiring a general contractor, the first point is to secure from the general contractor their liability certificate of insurance naming you as additional insured. You should do the same with all subcontractors, securing certificates of their liability insurance, naming you as additional insured. But owners may be exposed to uninsured losses if they stop there and simply rely on the contractor's certificate of liability insurance naming them as additional insured. There could be a cancellation of the contractor's policy that you may not know, or the contractor could have performed operations for which they were not insured, due to an exclusion or limitation within the contractor's policies. There are many types of contractors' liability policies and the integrity of the policies depends greatly on how well the contractor's policy matches the contractor's complete scope of operations. For example, some contractors' policies will allow for the insured contractor to build an addition to a home, but not more than 50%.

## **Project Specific Policies**

Basically, as the name applies, this is a liability policy that is designed solely for the current construction project. With Project Specific Policies, the general subcontractor adds you as additional insured and all the subcontractors name both the general contractor and you as the additional insured. In the case of a property damage or bodily injury liability claim, everyone's policy gets pulled into the mix.

Project Specific Policies are individually tailored for your project in order to pinpoint the specific type of coverage that you need.

## **Wrap Up Policies**

This type of policy is typically purchased for larger projects in the tens or hundreds of millions of dollars. A Wrap Up policy provides coverage for all contractors that are on the job, the owner, and general contractor. Often it is the general contractor that purchases the policy and then charges each subcontractor for their share of the premium. The advantage to this policy is that there is only one policy to look toward in the event of a claim, one set of policy language, and one set of lawyers.

Once the building or project is finished, coverage afforded under a special property and liability policies terminates, so the owner should be ready to have an appropriate replacement policy ready for the completed building.

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