

Markets in turmoil. Tightening credit availability. Projects slowed or canceled. The economic crisis has hit the commercial construction industry hard. Times are tough enough for conventional projects, so does that mean they're even tougher for "green building" development?

Not necessarily. The market for green projects remains positive, driven by their inherent efficiencies and the forces of growing public and regulatory interest in reducing environmental stress and addressing climate change.

The insurance industry stands ready to help support the drive toward green projects in the future. In the following interview, Mike Halvey, real estate practice leader, Zurich North America Commercial shares his views on the outlook for green construction.

What can you tell us about current trends in the real estate industry?

Overall, what you are seeing is a significant deterioration in liquidity--new construction has been severely impacted and the commercial mortgage-backed securities market has been all but eliminated. Property owners in many markets are experiencing higher vacancy rates and lower rents.

How do the challenges in financing new projects influence real estate professionals' approaches to sustainability? Do you think the credit crunch and the current market conditions will discourage them from building green?

If you asked that question two years ago, the answer would probably be "yes." But now, as the industry begins to mature, there is more evidence to support the proposition that you have significant cost savings and increased revenue by building green.

I was recently talking to an agent about paperless wallboard used in green buildings. Lenders like to know that it's part of the construction project because that means they are financing a building that is more likely to be mold free.

I think the current recession may reduce but not stop the market shift to sustainable real estate. There may be fewer new construction projects in the short term, but the supply of green buildings should continue to increase based on a great number of completed green buildings awaiting certification and more regulatory incentives and mandates.

According to a recent survey, 75 percent of commercial real estate executives say they will continue to build green despite the current market situation. Green building is estimated to be 10-12 percent of the current commercial and institutional building market (McGraw-Hill Construction's Green Outlook 2009 report "Trends driving change"). McGraw-Hill predicts it will represent 20-25 percent of new commercial and institutional construction starts by 2013.

What are the most often implemented green programs in commercial real estate?

There are some simple programs most often used such as non-toxic paint with low volatile organic compounds (VOCs), energy saving lighting such LED or CFC, carpeting that is not off-gassing, low flow toilets in restrooms and motion sensors in rooms.

Energy conservation is the most widely implemented program. Seventy percent of commercial building owners invested in energy efficiency systems. Other common green projects include recycling, water conservation and air quality management systems.

Green building is a relatively new initiative. The cost of green materials is higher than the standard ones. Does going green pay off?

While the short-term costs may be slightly higher, the long term cost efficiencies pay off. The cost to build a new green building is estimated to be on average 2.5 percent above the standard building. However, various studies show that green buildings consume about 30 percent less energy and 30-50 percent less water than conventional buildings. Green buildings can also lead to higher tenant retention. A CoStar Group study (2006) found that LEED® certified buildings had a 3.8 percent higher occupancy. Other benefits include an 8-9 percent decrease in your operating costs and, a 7.5 percent increase in the building value if the owner were to sell that building, and a potential increase in the rent.

What sectors within the real estate industry are expected to see most of the green building growth?

Probably the office sector. The amount of green office space constructed in 2008 was about 25 times the amount in 2000 and is growing at 50 times that rate (RREEF 2009). The most powerful driver toward green in this sector is tenant demand. A sharp increase in energy costs and operating expenses for commercial properties as well as greater public awareness and concern about the environment make real estate companies build green. In the long run, the human resource benefits of green office building may be even more important than potential energy efficiency. A healthy work environment with cleaner air and more sunlight may lower absenteeism, stimulate worker productivity, and attract the best talent.

What challenges will real estate investors and developers as well as insurance carriers face as far as going green is concerned?

With anything that is new, there are always challenges and certainly this is no exception. From an insurance perspective, what matters the most is the claims process. It's important to ask, are there people in place who know how to order and rebuild to green standards? There's also the concern of whether the cost savings will be realized. But again, the evidence is far greater than it was two years ago that those savings are in fact occurring.

How does the insurance market respond to the rising "green" needs of real estate customers? How active is Zurich in that area?

What we see now is a growing number of insurance carriers providing different coverage forms for green buildings, and the question is how much real coverage they are providing. There are obviously some unique exposures associated with these types of facilities, and the key issue will be how the market addresses those exposures with coverage.

Zurich recognizes the importance of this and is responsive to helping our customers manage their green-related risks. Last year, Zurich launched the Global Climate Initiative. This initiative has led to

the development of new products and services addressing the evolving risks associated with climate change such as Better Green™ coverage for sustainable property construction and rebuild options. In addition, we took significant steps in measuring and managing Zurich's own carbon footprint and facilitated climate change-related research. For example, Zurich funded a distinguished visitors program at the Donald Bren School of Environmental Science & Management at the University of California, Santa Barbara, and engaged in a series of dialogues with governments and regulators.



Can you tell us what Zurich's Better Green coverage has to offer to real estate owners, investors and developers?

Zurich has different variations of a green building endorsement that contemplates the entire course of a building's lifecycle--from construction to operational risks. The goal is to provide our customers with the means to be socially responsible while rebuilding and constructing properties in a cost-effective and environmentally friendly manner.

Our Better Green property offerings provide businesses with a way to address losses and expenses associated with the repair, replacement or rebuilding of damaged property in a green fashion. This endorsement can attach to the existing property and builder's risk policies to support the rebuilding or upgrading of a covered loss to comply with green standards.

So if there is a loss or damage on an existing building, instead of replacing it with standard materials, Zurich can replace it with the green equivalent. If there is a total loss, Zurich can rebuild it to green standards. We also have a coverage for existing LEED buildings as well.

What are the three major features of green building coverage that real estate companies should look for when buying this type of insurance?

You have to look at potential exposures that are not usually covered by standard builder's risk and property policies, but that may be unique for green buildings. There are three elements that are the most important in "green" coverage, in my opinion. I'm happy to say Zurich provides all three. These include:

1. **Betterment of the rating system.** As the green movement continues to grow, the criteria by which a building can become certified by the U.S. Green Building Council may change. This can adversely affect real estate owners and developers as they may have designed their respective building using previous rating criteria. Zurich's Better Green coverage for builder's risk allows you to rebuild your building to the new criteria so you can still achieve your original desired certified status such as Silver, Gold or Platinum LEED. With the property green coverage, if you lose your LEED certification that qualified you for government tax incentives, utility cost credits, reduced loan rates or other financial incentives as the result of the loss of or damage to your property, we will pay for your actual loss sustained up to the aggregate limit on the endorsement.
2. **Debris recycling.** Most builder's risk and property policies provide for debris removal. However, some of the LEED criteria require that debris be recycled either on the site or taken to a recycling center, which may be more costly than utilizing a landfill. Zurich's endorsement offers a broader removal coverage providing for debris recycling and any associated additional costs.
3. **LEED accredited professional & building commissioning expenses.** The LEED Green Building Rating System™ requires that qualified engineers help you with redesign or oversee the repair, rebuilding or replacement of your building. As these professionals are not always on a contractor's staff, Zurich's endorsement would provide coverage for expenses incurred to hire a third-party engineer to assist. As a benefit to our customers, Zurich has risk engineers with LEED-accredited professional designations who can also provide recommendations to ensure that your project is being built to the green standards.

Zurich will pay for these expenses and losses up to the aggregate limit provided for under the endorsement.



What insurance products will have a future in a growing green building market?

The future seems to be smart buildings that utilize a common IT infrastructure to go hand in hand with LEED certification. A smart building "knows" what is going on inside its walls and is able to respond accordingly. Smart buildings control building automation systems for monitoring and regulating such tasks as heating, air conditioning, lighting and other environmental variables. They can also oversee other building functions such as security, fire suppression and elevator operations. Smart buildings equipped with an integrated array of sensors can also monitor such things as the amount of sunlight coming into a room and adjust indoor lighting accordingly. Advanced smart buildings can know who is visiting a building after hours (based on the key swipe from the security system) and turn on the appropriate lights, equipment, and environmental controls. In addition, these buildings can help fire departments quickly determine where a fire is within the building and control access to areas involved, thus helping to ensure safety for the people inside the building.

Does Zurich have any green building educational programs to assist its customers in building green?

We are currently planning seminars for our brokers and customers to educate them more about green building issues. So stay tuned.

Thank you.

This is intended as a general description of certain types of insurance and services available to qualified customers through the companies of Zurich in North America. Your policy is the contract that specifically and fully describes your coverage. The description of the policy provisions gives a broad overview of coverages and does not revise or amend the policy. Insurance coverages underwritten by member companies of Zurich in North America, including Zurich American Insurance Company. Certain coverages not available in all states. Some coverages may be written on a nonadmitted basis through licensed surplus lines brokers.