



PLANNING AHEAD

How to Rebuild on Time After Property Damage

FOR BUSINESSES that suffer property damage, getting repairs or rebuilding completed on time and within budget is becoming an uphill battle.

A mix of inflation, supply chain challenges leading to material shortages, a tight construction labor market and the inherent complexity of commercial construction have pushed costs higher and stretched timelines longer. This can leave a company unable to operate or producing revenue at only partial capacity while they wait.

As the problem worsens, it's important that property owners have a strategy to jumpstart repairs through planning and by establishing a network of contractors in advance.

WHY REPAIRS ARE TAKING LONGER, COSTING MORE

Persistent inflation – Verisk reports that commercial reconstruction costs rose 5.7% year over year through the second quarter of 2025, with concrete prices jumping by more than 9%.

Supply chain disruptions – Tariffs on imported materials, supply chain issues and transportation delays are further inflating prices and lengthening delivery times. It's not uncommon for a project to be delayed for months because of part shortages.

Labor shortages – Nearly 900,000 skilled trade positions remain unfilled nationwide, and many contractors are struggling to meet demand for work.

Complex project requirements – Commercial construction is far more intricate than residential work.

Unlike a home, a commercial property may include multiple systems such as HVAC, fire suppression, medical gases, industrial machinery or commercial kitchens, all of which must meet strict codes and specialized standards.

Local contractor limitations – Contractors accustomed to routine maintenance may lack the expertise or workforce to manage large-scale reconstruction, leading to delays as businesses search for more capable contractors.

Risk multiplies after disasters

After natural disasters, these problems are compounded. Local labor, materials and equipment become scarce almost immediately after a disaster, as affected businesses vie for the same resources.

In these situations, unprepared property owners can end up paying steep premiums for scarce labor or settling for subpar work just to reopen sooner. Insurers face their own exposure as delayed repairs prolong business interruption claims and push overall loss costs higher.

Steps you can take

While these challenges are significant, property owners can take practical steps to mitigate repair delays and inflated costs when filing commercial property claims.

Build a broad contractor network –

Relying solely on local contractors can backfire after a catastrophe.

Developing relationships with a wider network of pre-qualified commercial restoration firms ensures capacity and capability when demand spikes. A vetted network also allows property owners and insurers to match each job to the right expertise rather than defaulting to whoever is available.

See 'Policies' on page 2



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PROPERTY INSURANCE

Standard Policies Not Suitable for All Businesses

IF YOU own or operate a business whose inventory varies throughout the year, a traditional commercial property insurance policy may not be sufficient in case of a large loss.

If your commercial property policy limits are based on the average inventory your organization carries throughout the year, and you have a total loss during a period when you are carrying additional inventory, your policy may not cover your losses in total. Conversely, if you set your policy limits based on the times when you have peak inventory, you may be overpaying for coverage.

Fortunately, there are specialized property insurance policies that are more flexible in terms of coverage.

Firms that need special policies

- Florists, which carry more stock around Valentine's Day and Mothers' Day than they do most of the year.
- Retailers, which carry more inventory during the holiday season.
- Warehouses and manufacturers, which may have variable amounts of product on their premises with vastly different values from month to month, week to week or even more frequently.

Coverage options

Businesses in this situation should consider two coverage options:

Peak season coverage – This coverage is appropriate for firms that can predict those periods when their values will increase.

The coverage form states the location and type of the property, the amount of additional insurance, and the period during which the higher amount applies.

For example, it might show that insurance on goods for sale will increase by \$100,000 from Oct. 1 to Jan. 1. This gives the business plenty of coverage for the busy time, but saves it from having to pay for all that coverage the rest of the year.

Value-reporting coverage – This coverage is for firms with asset and inventory values that fluctuate all year long. It requires the business to buy an amount of insurance large enough to take care of the peak periods.

The insurance company will charge a lower initial premium than that amount would ordinarily require. The firm then must make periodic reports of its values to the insurer. Depending on the option chosen, you may have to send reports weekly, monthly, quarterly or annually.

After the firm has submitted all of its reports for the policy period, the insurance company will determine the average values and calculate the final premium.

Firms that choose value-reporting coverage must take care to submit the required reports on time and accurately. The form gives the insurance company the right to reduce claim payments for losses to the property when reports are late.

The insurer can also reduce a loss payment if it finds that the policyholder underreported its values. The limit of insurance does not automatically increase if the reports show values higher than the limit; the firm must request an increase in coverage.

The takeaway

Any company with variable property values would be wise to consider purchasing one of these types of policies.

With some careful planning, a business can limit its insurance costs while still getting the coverage it needs.

Call us if you have questions about these policies or to discuss whether it's appropriate for your operations. ❖



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Use Time-and-Material Policies to Reduce Risk

Use time-and-material pricing models – Traditional fixed-price contracts can create inefficiencies and inflated costs when project scopes shift. A time-and-material model charges based on actual labor hours and materials used, which in turn offers transparency and flexibility.

This approach also allows for detailed tracking and frequent review of expenses so both owner and contractor understand exactly where costs are going. According to Verisk, smarter review models based on time-and-material data can cut inflated commercial repair bills by 20% or more.

Establish pre-loss agreements – Pre-loss agreements set expectations in advance by outlining pricing frameworks, response

times and emergency protocols before a loss occurs.

By having these contracts in place, property owners can mobilize resources immediately after a loss without wasting time negotiating terms. This proactive planning is particularly valuable for multi-site operations or organizations located in catastrophe-prone regions.

Emphasize proactive project management – Active oversight keeps contractors accountable, coordinates multiple trades and helps ensure the contractor stays on schedule. This requires someone on the team to regularly check on work progress.

Whether through an internal facilities team, a dedicated project manager or virtual monitoring tools, close supervision helps ensure the repair process stays on course and minimizes costly delays. ❖

LEGAL RISKS

The Elements of a Good Construction Contract

IT WOULD be nice if everything could be done with a gentlemen's agreement. But it's important to get things down on paper in a written contract. That's especially vital for high-dollar, complex items like construction projects — which require big investments up front, large commitments of capital and labor.

Furthermore, we all hope that all our projects are built to completion without any unforeseen obstacles, delays, hitches or confusion. But we all know that they don't, and complications can arise that are beyond the ability of any party to a construction contract to foresee.

Here are the essential elements of a sound construction contract that can withstand adversity and protect the interests of both sides.

Specificity

The contracting entity should ensure that whoever is drawing up the work requirement or request for proposal is qualified to do so.

Conversely, contractors should be alert to the possibility that the authors of a 'request for proposal' or work order may not fully understand what is involved. A successful contract is built from the very first engagement — which could be months before the actual contract is drawn up and signed.



Elements of a successful RFP

- Property information, including location, approaches and available storage/staging space. You can use Google Earth to include an aerial photo of the work site.
- Architectural and engineering specifications.
- Environmental remediation or environmental impact mitigation requirements.
- Deadline for completion at a minimum. Include milestones for partial completion if possible (this is a collaborative process which requires cooperation from parties to the contract). The deadline for completion is frequently set, however.
- Additional constraints. For example, contractors on federal projects must pay workers according to the Davis Bacon Act, which frequently means that wages will be higher for federal projects. States frequently have similar laws that govern state projects.

Pricing and allocation

Contracts should address what expenses are reimbursable to the contractor and what kinds of costs are to be included in the contractors' fees.

Payments

Construction contracts should spell out when payment is due to the contractor. This frequently means a series of milestone payments to the contractor. The less frequent the milestone payments, and the later the payments are made, the greater the risk to the contractor.

How to stagger payments

The contract should include payment triggers, including:

- Initial deposit and payment to get work started, hire laborers, lease equipment, and pay a project manager or team to start laying out the whole project.
- Groundbreaking.
- Completion of foundation to include ground-level and basement plumbing and sewage fixtures.
- Receipt of a key materials invoice.

Responsibilities

Contracts should identify the contract manager on both sides, by name and duty position. If there should be personnel turnover, including duty position can help clear up confusion in larger organizations. Ideally, personnel changes should be addressed in writing to avoid questions about who is authorized to approve payments and change orders.

Deliverables

Don't neglect to include the securing of permits and licenses as a deliverable.

Change order procedures

There is always a chance that contracts have to be altered mid-stream to account for changes on the ground. Material availability, labor disputes, weather, changes in regulations or zoning, unexpected complications on the job site, and more can require contract changes.

Contracts should set forth the project and terms while still allowing for flexibility in addressing real-world issues that come up.

Also, material, labor and permit costs can fluctuate. A thorough contract will take this into account, and provide a mechanism for pricing to increase to compensate for this. Contractors will have to charge more to compensate for the risk if the contract is less flexible.

Termination

Even among well-intentioned, competent contractors, there is occasionally a mismatch that arises between the project and the core competencies of the contractor.

Contracts should specify how and under what circumstances a contract can be terminated, and if a new construction company is to take over the project, what kind of 'handover' a contracting company can expect. ❖



RISK MANAGEMENT

The Perils of Not Keeping Up Your Commercial Property

IF YOU OWN a commercial property or lease a building, you not only have to be concerned about risks that cause property damage, but also the risk of injury to visitors, customers and tenants.

It's your responsibility to keep your property free of hazards that can result in injury or worse. If you fail to live up to your responsibility, you risk being sued by the injured party.

Commercial premises liability claims can involve a wide range of situations, including:

Slip, trip and fall accidents – A slip and fall may have occurred due to wet or damaged floors. Trips and falls may occur due to obstructions in walkways and poor lighting during evening hours.

Property defects – If you fail to keep up the property or conduct regular maintenance, hazards can easily develop. When hazards and property defects arise, it's your responsibility to address them as soon as possible. And if it will take a while to make the repairs, you need to alert visitors, customers and tenants about the danger, like cordoning off an area and erecting visible signs warning of the hazard.

Negligent security – If your facility is located in an area with a higher than average level of criminal activity and break-ins, you are also expected to keep the premises and everybody visiting the site safe.

Poor lighting, lack of security personnel, lack of security systems, and a lack of other safety measures can all lead to a negligent security claim.

Risks of inadequate lighting

There are three ways that inadequate lighting at a commercial property can contribute to a claim against your organization:

Making a safe area unsafe – Poor lighting can conceal conditions that would not be considered a hazard under normal lighting as they would be visible. Inadequate lighting makes it harder to see curbs, inclines in walkways, steps, borders for planters and other decorations.

Masking existing hazards – Inadequate lighting can be especially dangerous when it serves to conceal the presence of hazardous defects already existing on a property. For example, if a foreign substance has been spilled on the floor, while that would be considered a hazardous condition even when fully illuminated, it becomes doubly hazardous when obscured by darkness.

Creating a magnet for crime – Poor lighting can give cover and concealment to criminals intent on mugging or harming individuals at your property in the evenings. If you create conditions for a mugger to sneak up on someone in your dim parking lot or near the entrance to a poorly lit building, they could sue you for negligence.

How insurance can help

Commercial general liability insurance is an essential part of every business owner's insurance portfolio. It protects you and your business from claims of injury, property damage and negligence related to your business activities.

One of the most essential parts of the policy is premises liability coverage. This portion of the policy offers bodily injury and property damage coverage related to the ownership or maintenance of business premises.

Every business owner has some type of premises liability exposure. Any injury on your business premises, no matter how minor, can result in a lawsuit.

The costs associated with defending yourself and paying damages can be devastating for your business. Premises liability coverage gives you – and your guests – the protection you need.

If you are leasing space in a commercial building, your liability typically ends at the front door to your office and anything beyond that is the responsibility of the property owner. If you own and occupy a building, the entire property is your responsibility.

If you want more information on this type of insurance or want to evaluate your current coverage, give us a call. ❖