

Insurable Soft Costs in Construction

In the construction sector, certain soft costs can be insured to protect project stakeholders from financial losses.

When a construction project is delayed by an insured loss, the financial impact can reach far beyond labour and materials. Interest on loans, additional lease costs, or extended project management fees can add up quickly - and without proper coverage, those expenses can come straight out of your budget.

Understanding which soft costs are insurable, and how they're calculated, is essential to protecting your investment.

WHAT ARE INSURABLE SOFT COSTS?

Insurable soft costs are indirect expenses related to a construction project that can be covered by insurance policies. These costs typically arise due to delays or interruptions in the construction process caused by an insured loss. In Canada, the following soft costs are commonly insurable:

INTEREST ON CONSTRUCTION LOANS

- Interest accrued on money borrowed to finance the project during delays.
- Can be a significant expense, especially for large-scale projects.

PROPERTY TAXES

- Ongoing property tax obligations during construction delays.
- Varies by municipality and property value.

ADDITIONAL LEASE OR RENTAL EXPENSES

- Costs incurred if temporary facilities are needed due to project delays.

INSURANCE PREMIUMS

- Continued payment of insurance premiums during extended construction periods.

ARCHITECTURAL AND ENGINEERING FEES

- Additional fees for design modifications or extended services due to delays.

LEGAL AND ACCOUNTING COSTS

- Extra expenses for legal and financial services related to delay management.

PROJECT MANAGEMENT FEES

- Extended costs for project management services during delays.

MARKETING AND ADVERTISING EXPENSES

- Costs to maintain or adjust marketing strategies due to project setbacks.



OTHER SOFT COSTS TO CONSIDER

Beyond the more common expenses, many other soft costs can surface during a delay. While some may be less obvious, they can still carry a significant financial burden and should be addressed when reviewing coverage:

- Accounting Fees
- Additional commission expenses
- Additional costs of advertising and promotion
- Additional design costs
- Additional expenses to expedite repairs, reopening
- Additional interest on loans to finance construction or repair
- Additional leasing expenses resulting from opening delay
- Additional realty taxes and other assessments
- Architects', engineers' and consultants' fees
- Construction loan fees for rearranging financing
- Debt service interest and principal
- Developers Fees
- Expenses incurred to accumulate data and to prepare a proof of loss
- Expediting expenses
- Fees for licenses and permits
- Increased mortgage financing expense
- Land and Real Estate Holding Costs
- Project Insurance Premiums
- Legal and professional fees
- Loan commitment fees
- Normal operating expenses that continue even when the project is not operating

FINAL CONSIDERATIONS

Soft cost coverage is not one-size-fits-all. The exact list of covered expenses will depend on your policy wording, so it's important to confirm the scope before breaking ground.

To ensure your project is fully protected:

- Keep thorough documentation of project expenses to support potential claims.
- Review potential soft costs with your broker before construction begins.
- Update your coverage if the project scope or financing changes.
- Coordinate soft cost coverage with Builder's Risk and Delay in Start-Up insurance for a complete protection plan.

Understanding and accurately calculating insurable soft costs is essential for effective risk management in the construction industry.

By focusing on these specific costs, project stakeholders can better protect themselves against financial losses due to unforeseen delays or interruptions. As the construction landscape continues to evolve, staying informed about insurable soft costs and working closely with insurance professionals will remain crucial for project success.

If you have questions specific to your business, or would like additional information, please reach out to your Lloyd Sadd Advisor.

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