



Background

It is all too easy for business owners to think of risk management activity as nonproductive time generating costs and negatively impacting their P&L. This is especially true for commercial real estate (CRE) owners and property managers, who might suggest that the bigger financial risks they face are related to vacancy rates and rising interest rates, driving down their property valuations.

As they wrestle with those very real concerns, the value of their properties could be equally at risk from day-to-day conditions and hazards related to their property.

Property owners and managers know, of course, that property and casualty risks are present in several areas. They also understand the costs associated with such incidents occurring are significant compared to the costs of the risk management activities that could prevent these incidents or at least minimize their impact.

Still, the unfortunate tendency is to postpone proactive risk prevention, a strategy few CRE investors and facility managers would explicitly endorse but one all too easy to slip into.

In this report, we will explore some of the primary risks CRE owners and facility managers face, and we will identify strategies they can adopt to manage and limit those risks to maintain the value of their CRE asset and maximize their P&L.



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Categorizing CRE Property Risks

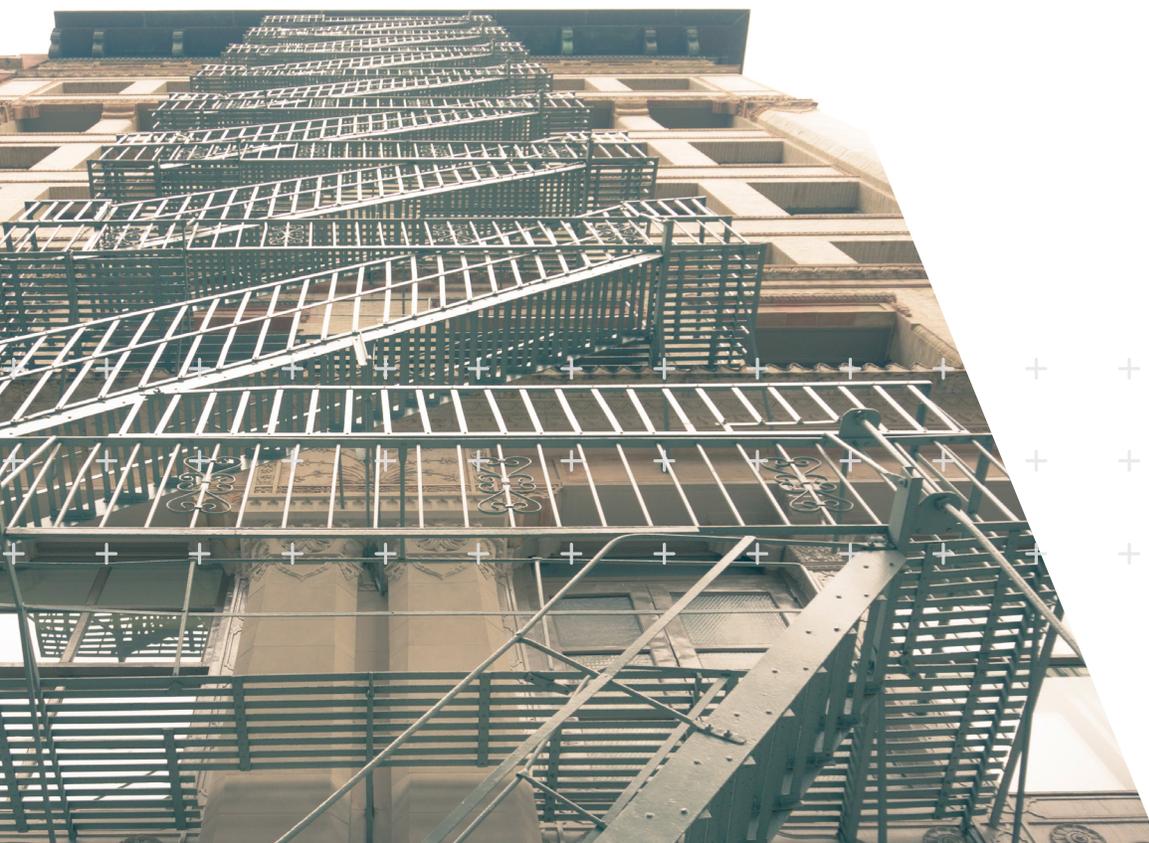
CRE asset risk management should be considered in the context of some admittedly subjective concepts, including **controllability** and **non-controllability**. As we will see, most risks to a CRE asset are controllable to some extent, even if some of the events precipitating them are decidedly uncontrollable.

Risk management in the context of preserving CRE property includes **prevention** and **minimization** steps. Risk management and planning should also incorporate after-the-incident **restoration** strategies.

In the most common cases of property damage, all three risk management strategies come into play: preventing an incident from happening, mitigating its impact if it does occur and utilizing claims management strategies to restore assets to their previous state.

Within some of the worst categories of catastrophes, the event cannot be prevented, and the physical impact cannot realistically be minimized. For example, it is not possible to prevent a Category 5 hurricane from directly impacting an ocean-front high-rise or minimize the damage if it does. In “planning” for these situations, the primary risk management strategy will be to have adequate resources to restore the asset, typically through sufficient property insurance.

In this article, though, we will focus primarily on the risk **prevention** and **minimization** strategies for some of the most common threats to commercial building structures.



RISK in Focus

Liquid Escape



RISK in Focus

Liquid Escape

Whether from faulty plumbing or a violent storm, once water makes its way into or throughout a commercial property, it can cause immediate and long-term damage. It is important to realize, water escape risk is not always in the form of a sudden flood pouring through an area of the building, but also from slow leaks which cause mold and localized structural damage over time, well before it is noticed.

Preventing Liquid Escape Events

Liquid escape prevention strategies include **routine inspection and maintenance** focusing on the most likely pathways for water intrusion into the building or water escape from interior systems.

Damaged roofing and roofing components are common entry points for stormwater. These areas should be inspected from the outside and in the spaces directly below the roof to look for evidence of minor leaks. While these leaks may not yet be impacting the structure, if neglected they can grow larger, causing mold and localized structural issues. Similarly, outside water can infiltrate a building through **faulty or cracked seals on windows** or **aging exterior coatings** so regular inspections of these areas are equally important.

Worn out or damaged HVAC (Heating, Ventilation and Air Conditioning) systems are another common cause of interior water damage. Heating and cooling systems must be inspected regularly, not only for leaks but for operability issues putting undue pressure on water cycling systems.

Water leaks can also come from **damaged or antiquated plumbing pipes and faulty sprinkler systems**. These must be inspected regularly, a process which can be supplemented by commercial water leak detection systems that monitor for fluctuations and abnormalities in water pressure, indicating a leak.

Freezes compromise water pipes making it important to **identify water systems and freeze impact points**, such as along exposed walls susceptible to deep freezes. These pipes should be insulated or even rerouted if possible.

Finally, **tenant accidents** could cause a liquid escape issue from damaged appliances, negligence or in the course tenant improvement projects. Building owners and managers should consider policies requiring all tenant improvement work to be coordinated with or overseen by building maintenance staff.



Minimizing Liquid Escape Damage

The most dramatic water escape situations are immediately visible. During walkthroughs and subsequent visits, owner's representatives should **remind tenants of the water shutoff valves** located within their units. These should be **clearly labeled** as to what they are, when to engage them and how to operate them.

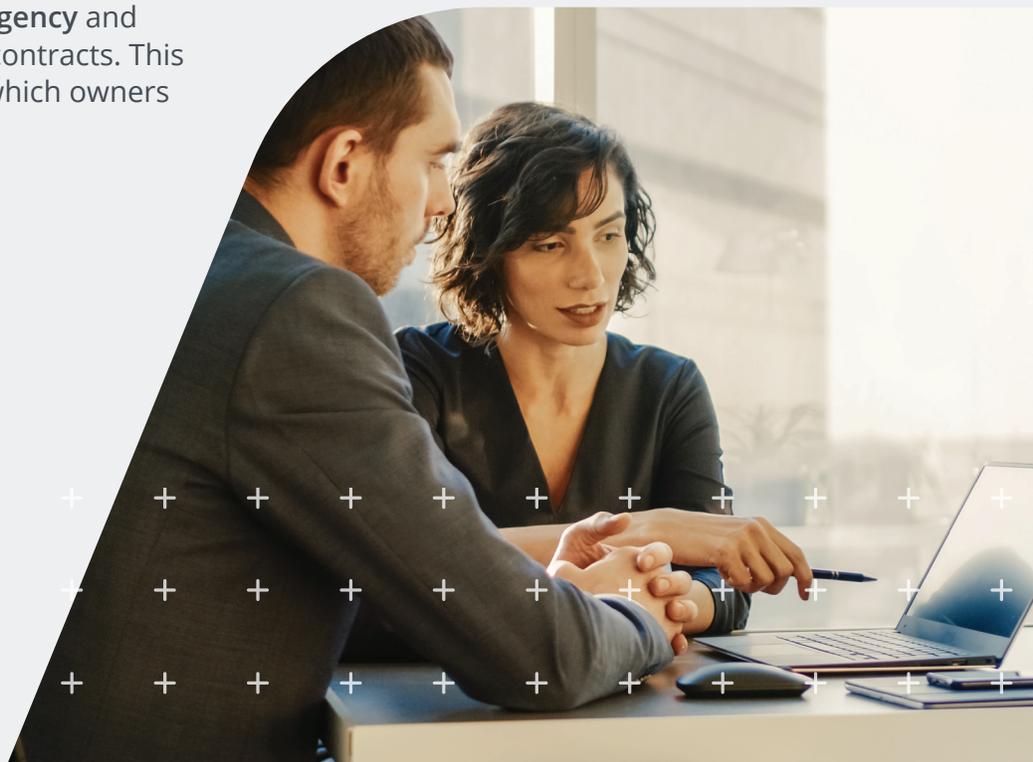
Maintenance and security teams should have emergency response plans with **facility maps showing water cutoff and shutoff points**. The team members can isolate their response if the liquid escape is confined to one area or floor. Since these valves are in locked areas, the teams need to have easy and quick access to those spaces. The valves themselves should be **labeled** according to the areas they control and the proper procedures for engaging and disengaging them.

The CRE property owner may want their security and maintenance representatives to have **access to locked tenant spaces in an emergency** and include this authorization in tenant contracts. This approach brings additional liability which owners need to be aware of.

Since security and maintenance team members rarely are on site 24/7, water systems should be equipped with detection sensors notifying owners or property managers remotely of liquid escape events. These systems are available for individual units as well.

It is important to remember if an accident does occur, a thorough evaluation of what happened should take place so a decision can be made regarding the necessity of additional equipment or procedures are needed. It can be easy to file the claim and move on but taking this additional step should hopefully result in the accident or a similar incident reoccurring.

For more information, please see IMA's Escaped Liquids Response Plan: [imacorp.com/wp-content/uploads/2022/09/Escaped-Liquids-ERT_081922.pdf](https://www.imacorp.com/wp-content/uploads/2022/09/Escaped-Liquids-ERT_081922.pdf)





Internal Fires

Internal Fires

As opposed to wildfires, fires from internal sources are mostly controllable risks for owners and managers of commercial property. These fires can originate from faulty electrical systems or careless tenants, for example.

Preventing Internal Fire Events

Electrical system inspections are critical to preventing fires caused by deteriorating or faulty electrical components, improper wiring, or even badly conceived placement of electrical equipment (e.g., in sub-basements at risk for flooding for example).

Tenant improvements should be monitored (reinforced by contract requirements) so electrical systems are not compromised or overtaxed in these confined areas.

Minimizing Damage From Internal Fires

Strategies for minimizing damage and protecting lives in the event of an internal building fire include **rapid notification, automated suppression systems and easy access for fire crews**.

Fire alarms should be visually and functionally tested by independent agents in accordance with National Fire Protection Association (NFPA) recommendations.¹ Similarly, **sprinkler and other suppression systems should be inspected** according to manufacturer standards.

Much of the fire minimization strategy for commercial properties can be drawn directly from inspection protocols of local fire departments. Building owners and managers should maintain their own **fire hazard checklists** that correspond with local fire codes that are typically available online.

These **fire minimization plans** should include practices that **enable easy emergency** access for firefighters. The situations cited by the Denver Fire Department are conditions they most often find out of compliance²:

- + Extinguishers must be up to date
- + Door locks require single motion hardware
- + Storage is allowed only in designated storage space
- + Egress pathways must be 36" and maintained at all time
- + Knox box keys are required and must be kept up to date

When it comes to fire inspections, announced or unannounced, building owners and managers should not view these as intrusions or burdens but opportunities to collaborate with experts on how to protect their property and build goodwill with the professionals who may be risking their lives to minimize damage to their property in the event of a fire.



RISK in Focus

Tenant Injuries



Tenant Injuries

Tenant and visitor injuries in shared areas of commercial buildings are most often due to slips and falls in lobbies, visitor bathrooms, parking garages and similar spaces.

Preventing Tenant and Visitor Injuries

Building security, maintenance team members or concierge staff should **monitor entryway floors**, especially in wet weather. These areas should be covered by mats, rugs or even carpeting if their edges do not pose a tripping hazard. In wet weather, building staff should place one or more signs advising caution and warning of possible slippery floors. These should be placed in entryways and other strategic locations like elevator banks on the ground and garage levels.

During snowstorms, **outdoor entryways should be cleared of snow** extending as far into the parking lot as possible. Building staff should monitor the condition of the outdoor entryway and frequently shovel the area while applying salt or sand to prevent patrons from slipping and tracking snow into the shared areas.

Within these shared areas, staff should be ready to place warning signs at entryways and other strategic locations like at elevator banks on the ground or garage levels.

Visitor and tenant injuries can occur the moment a person steps out of their car in the parking area so building owners and managers should **quickly arrange for repairs of potholes and sunken pavement** to minimize falls and turned ankles, as well as damage to cars. **Changes in elevation** at curbs and steps should be **clearly highlighted with yellow paint** to minimize trips and falls in these spots.

Minimizing the Impact of a Tenant or Visitor Injury Incident

In the event of a slip or fall in a shared area, building staff should **provide the person with all assistance possible** and act courteously and professionally.

Claims management activity at this point calls for the property owner to **get to the scene immediately** to inspect the area closely, **perform a thorough accident investigation, obtain all essential details and document the incident** in writing. No matter how minor the incident might appear, they should **report it to their brokerage claims advocate team** and supply any information requested.

Building staff should only discuss the incident in question and not accept liability before a thorough investigation has been performed.



RISK in Focus

Weather Damage

A photograph of palm trees in a city during a storm. The palm trees are leaning heavily to the right, indicating strong wind. In the background, several tall, modern buildings are visible. The sky is overcast and grey, suggesting a storm or heavy rain. The overall mood is dramatic and emphasizes the power of weather.

Weather Damage

Commercial structures are vulnerable to additional weather threats beyond deep freezes – including high wind, hail and wildfires.

Hailstorms alone account for 70% of all weather-related structural damage property losses from severe convective storms in the U.S. In some regions of the country, hailstones can measure 3 inches or more, with even smaller stones capable of breaking windows and damaging roofs and rooftop-mounted HVAC equipment.

There is no way to prevent a significant weather event, forcing the risk management strategy to center around minimizing the impact by “hardening” the structure as much as possible to minimize damage.

Minimizing Damage from Hail and Windstorms

Whether during the construction phase, during a remodel, after a damaging event or at the recommended replacement times, CRE property owners should work with their insurance carrier to **discuss appropriate designs for roofs, windows and exteriors** that can limit potential damage from severe storms.

They should consider **impact-resistant roofing** made with a rubber membrane, a thicker coverboard, or a new-era metal. Roof-mounted HVAC equipment can be protected from all but the largest hailstones with **mesh hail guards and shields**. The roofs and HVAC protective systems should be inspected periodically to make sure they will be secure in windstorms.

Reducing Risks from Wildfires

Recent accounts confirm wildfires pose a risk for suburban buildings, not just remote structures.⁴ The fire might be an inferno moving rapidly through an industrial park or it might be triggered by a windblown ember blown from miles away.

In either case, damage to a structure might be minimized if the building owner has made proper preparations to reduce nearby fuel for a fire. The NFPA offers guidance for homeowners on how to prepare their structure and property, and many of those risk reduction steps apply to commercial buildings.⁵

NFPA recommends property owners focus their attention on a 200-foot Ignition Zone. Beginning in the Immediate Zone, 0-5 feet from the structure, they should focus on **removing debris and cleaning and securing vents**. Within the Intermediate Zone from 5-30 feet, they should **remove vegetation, keep native grasses mowed, limit the reach of tree canopies and avoid having long rows of shrubbery**. Inside the Extended Zone, from 30-200 feet, landscapers should **expand space between trees and remove dead plants and tree material**.

For more detail, we encourage CRE owners and managers to **review the NFPA publication** cited above. Additionally, IMA’s loss prevention teams include NFPA-certified wildfire mitigation specialists who can assess a client’s commercial property and make fire risk minimization recommendations.



Failure to Maintain Proper Contractual Waivers of Subrogation

Subrogation refers to the legal ability of an insurer, after paying out a claim to the insured, to then seek remedy from the responsible party's insurance company (or from that party's assets) if they are found at fault.

A **mutual waiver of subrogation** is a preferable contractual stipulation in the interest of both parties. In these cases, a tenant will not be responsible for widespread damage to the building due to their negligent act and property owners will not have to rely on a tenant's assets or proper insurance limits/conditions to be compensated for a major loss.

If the waiver of subrogation between the two parties is not in harmony, a tenant's insurance carrier can go after the property owner and their insurer. In the event of a sizable loss, this can be detrimental since limits will be exhausted and any excess costs over the limits will be the responsibility of the property owner or manager, compounding their loss.

Prudent risk management includes a review of contracts between the tenant and the property owner to make sure these waivers of subrogation clauses are in place and in sync. IMA, for example, offers contract review services for its clients in this and other areas.



A Final Word

Systems and exteriors inspections. Building staff training. Preventive maintenance. Accepting the guidance of emergency responders. Strategic contracting.

Each of these risk management strategies can prevent or minimize the impact of a major insurable incident related to your CRE investment. These activities take time and resources, but they can be done in a cost-effective way. Eventually, they inevitably prove their value.

A common theme running through this discussion is the importance of preparing and planning for a dramatic and possible catastrophic event. Some can be predicted, others cannot. Some are controllable, but not all. In each case, their impact can be minimized through pro-active steps.

Managing and minimizing risks in many of these areas begins with the implementation of a comprehensive Health, Safety, Security and Environmental Assessment program. If you are a client, we are happy to share a detailed outline of an HSS&E program to guide your efforts in this area.

And beyond risk avoidance steps, we are eager to work with you to not only prevent or minimize your losses, but to help you carry out all of this in the most cost-effective way to protect your company's bottom line.

Please contact your brokerage team or a representative today to design a comprehensive risk management program and loss control service plan tailored to your needs.

Sources:

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