



What actually are soft costs?

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Total Completed Value

Definition

“Total estimated completed value” means all costs associated with the building and designing of the Covered Property, including labor, materials and overhead business expenses incurred due to the construction of a dwelling or structure, and if included, “profit.”



Soft costs

Definition



“Soft Costs” means reasonable expenditures which are necessarily incurred during the “delay period” that would not have been incurred by you if the “delay period” had not occurred.

Soft costs

Consisting of...

- ▼ Interest upon money borrowed to finance the contract work (Interim Interest Expense)
- ▼ Realty taxes and ground rents, if any;
- ▼ Advertising and promotional expenses necessarily incurred;
- ▼ Costs of additional commissions incurred upon renegotiating leases;
- ▼ Architects, engineers and consultant fees;
- ▼ Project administration expense;
- ▼ Legal and accounting fees; and
- ▼ Insurance premiums; and
- ▼ Other similar costs you incur over and above the costs that you typically would have incurred during the course of construction.

Delay period

Definition

“Delay period” means the period of time between the scheduled date of completion and the actual date on which operations or use and occupancy can begin with the exercise of due diligence and dispatch.



Coverage language

We will pay the actual “soft costs” arising out of the “delay period” to the extent such expenses are actually necessarily incurred by you to enable you to begin your operations in the manner originally planned. The “soft costs” must be incurred during the “delay period” and such “delay period” must be caused by or result from direct physical loss or damage by a Covered Cause of Loss:

- (1) at or within 100 feet of the premises shown in the Declarations; or**
- (2) while in transit**

The most we will pay under this Additional Coverage is the amount shown in the Supplemental Declarations for Soft Costs.

Delay in completion

Coverages

Rental income coverage

Pays for actual loss of rental income during the delay period

Income coverage

Pays for actual loss of net income during the delay period



Delay in completion

Coverage part

Coverage provided under this coverage part is also subject to the "terms" and conditions in the builders' risk coverage form under the sections titled:

▼ Agreement

▼ Definitions

▼ Property not covered

▼ Perils covered

▼ Perils excluded

▼ What must be done in case of loss

▼ How much we pay

▼ Loss payment

▼ Other conditions

▼ Additional coverage limitations


Soft Cost Worksheet

This is an example of a soft cost worksheet. These help the builder, remodeler, general contractor or owner accumulate costs to ensure they arrive at the proper soft cost limit to ensure their project can continue within budget.

Email buildersrisk.us@victorinsurance.com or call (800) 944-7472 to request your own copy of our soft cost worksheet, which will be delivered to you as an interactive PDF.

Builders Risk | Soft Cost Worksheet

Soft Costs	Coverage Limit
Accounting fees	
Additional commission expenses	
Additional cost of construction labor and materials	
Additional cost 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	
Bond interest	
Closing costs	
Construction loan fees for rearranging financing	
Contingencies	
Debt service interest and principal	
Delayed opening loss of income	
Expenses incurred to accumulate data and to prepare a proof of loss	
Expenses incurred for the sole purpose of reducing or avoiding an increase in the cost of repairs and re-opening	
Expediting expenses	
Fees for licenses and permits	
Founders fees refunds	
General overhead of developer	
Increased mortgage financing expense	
Insurance premiums	
Interdependencies	
Lag time, loss of lease or contract	
Legal and professional fees	
Letters of credit	
Loan commitment fees	
Loss of license or permit	
Loss of rental income including escape clauses in leases	
Loss of tax credit under IRS section	
Loss resulting from denial of access to the project because of damage to other property in the same vicinity	
Normal operating expenses that continue even when the project is not operating	
Total	

 This document is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.
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Claim scenario

Disclaimer

Claim scenario

The example discussed in these slides and the accompanying presentation are purely illustrative and general in nature and are not meant for application to any specific policy or claim. Claims on Victor's book of business are adjusted and administered by our program's insurer[s].

Claim scenario

- ▼ Custom single-family home under construction is 75% complete.
- ▼ Lightning strikes the structure.
- ▼ A fire engulfs the entire project.
- ▼ Resulting in a total loss.



Claim

The result and risk factors

Result

- As a result of the fire, the structure had to be rebuilt causing a delay to closing.
- Approximately 10% of the total project cost involved soft costs:
 - Insurance premiums
 - Contingencies due to delayed closing
 - Additional over time to catch up
 - Construction loan had to be extended, resulting in increased interest expense.

Risk factor

- If the insurance agent had not obtained soft cost coverage for the builder, all of these additional expenses would not have been covered under a basic builders risk policy. This could determine whether the builder makes a profit or not on this project.

“Pass through” risk

What is a “pass through” risk?

A “pass through” risk is any case submitted into V² that does not generate an underwriting hold and flows from quote to bind to issue.

If your client does not need to increase the limit of automatic additional coverages or add any optional coverages, and you can answer, “yes,” to the following questions in your V² submission, your quote will not generate an underwriting hold and you will receive your quote in minutes.

Q. Is the project ground-up, new construction?

Q. Is the project less than 30% complete?

Q. Does the project type fall within protection classes 1-7?

Q. Is this a new construction project with a completed value of:

- \$1.5 million or less (coastal)

- \$3 million or less (inland)

Q. Does the builder, remodeler, owner or general contractor have at least 2 years’ experience?



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Thank you



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