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Before the Next Storm: Tips for Owners & Managers

The mega-storm called Sandy gave owners and property managers a wake-up call when it pounded New York, New Jersey and Connecticut on Oct. 29. The following best practices for disaster preparation and response are adapted from experts' recommendations on a variety of related topics.

Nuts and Bolts

- Sandy knocked out land lines and cell towers for miles around. Choose communications providers with multiple switching capabilities in dispersed locations.
- Back up and store data in a cloud-based server located at a respectable distance from company offices.
- Keep emergency kits on hand that include essential items like fresh water, first-aid supplies, flashlights, batteries, lanterns and hard hats.
- Maintain an updated roster of cleaning and disaster restoration contractors that can provide rapid response.
- Establish the option for office staff to work at home when the office is inaccessible.
- Though expensive, generators can help owners and their tenants keep working while awaiting power restoration. One caveat: Disruptions in fuel supplies, like those that occurred after Sandy, can limit the value of the equipment.

—Linda Felthouse, senior vice president, Alter Asset Management

Legal Matters

Questions for Landlords:

- As a landlord, you need to know your responsibilities toward properties, tenants and lenders. What repairs are your responsibility and which, if any, are the tenants' or residents'?
- If the lease requires the tenant to restore the property, is it enforceable when damage is caused by a natural disaster?
- If your commercial building is uninhabitable or basic services like gas, electricity and water cannot be provided, what are your rights and responsibilities under the lease or state law?
- Is your insurance coverage adequate to meet those obligations?
- If the lender is unwilling to forego mortgage payments for an extended period, how will you handle your debt? Do you need to negotiate a workout and restructuring with your lender?

Questions for Tenants:

- Even though your leased property is partly or completely unusable, are you still responsible for lease payments?
- If your property was severely damaged and you want to relocate, do you have the right to terminate your lease?
- If you are forced to temporarily relocate from a damaged property, does your lease reimburse you for such expenses as moving fees, brokers' fees and temporary rent increases? Alternatively, is your insurance coverage sufficient to cover those costs?

—Leo Leyva, partner & co-chair of the real estate specialty opportunities group in the New York office of Cole, Schotz, Meisel, Forman & Leonard P.A., and Tara Duggan Ryan, an associate in the firm's real estate practice.

Reckoning the Risk

- Don't underestimate your risk of flood. You don't need to be located in a coastal area to be at risk. Most commercial insurers base their flood insurance rates on the levels of flood risk designated by FEMA's Flood Insurance Rate Maps. These maps are constantly being updated, so it's important to know how your property is classified. If your area has recently been reclassified as a high hazard zone, your current coverage may be inadequate in the event of a claim.
- You can't be too prepared. An emergency response and business continuity plan, when up to date and properly executed, can greatly reduce the damage to your property—and more important, keep your employees safe. Your plan should identify responsibilities and specific steps to take before, during and after a storm.
- Because businesses today are so interconnected, you need to be aware not just of the risks to your own company but of those for your critical suppliers. Business interruption claims comprised 20 percent of the overall insurance losses from Hurricane Katrina, according to PricewaterhouseCoopers. Power failures and flooding caused by Sandy are likewise expected to result in heavy losses from business interruption.

—Hub International Ltd., a Chicago-based insurance brokerage.

For more analysis of the impact Hurricane Sandy had on commercial real estate and changes that could be made to better withstand future such storms, view the Special Report: When Disaster Strikes in the January 2013 edition of Commercial Property Executive.