

Environmental Risk in the Real Estate Industry

Uncover your environmental liabilities and exposures

The risks associated with the real estate sector are becoming increasingly complex, placing a greater emphasis on environmental accountability, liability for directors/officers, and managing new regulations. Integrated and comprehensive environmental insurance coverage is a fundamental component of a strong risk management program. However, traditional insurance policies have limitations and exclusions that restrict coverage for various environmental liabilities or impacts to the natural environment which exposes companies to financial and reputational losses.

Aon's Environmental Services Group specializes in identifying and assessing the key environmental exposures organizations face in their day-to-day operations, historical exposures, and special projects.

Identifying the gaps

Historically, insurance programs were not designed to capture environmental risks and exposures. Therefore, many insuring agreements lack specific environmental terminology and affirmative coverage for pollutants, and contaminants may be limited or even excluded. Notable environmental coverage enhancements and affirmations include:

- Coverage for natural resource damage within the definition of "property damage"
- Coverage for first-party remediation costs to soil and water, on-site or off-site
- Coverage for unexpected or unintentional release of pollutants or contaminants, without any time element limitation (i.e. gradual coverage)
- Coverage for civil fines and penalties related to environmental events
- Coverage for mold and legionella
- Coverage for asbestos and lead based paint (property damage, bodily injury, and clean up in soil/groundwater)

Customizing solutions

Real estate firms are surrounded by environmental exposures in their operations, work sites, material storage, and waste disposal practices that could compromise their reputation and revenue. Environmental coverage can be imperative in situations including but not limited to:

- Third-party liability from bodily injury and property damage (e.g. diminution of value, loss of use, and natural resource damage)
- Business interruption due to an environmental incident (e.g. extra expenses, loss in revenue, loss in rental income, delay in construction, and delay in start-up)

- Remediation or cleanup costs for on-site/off-site environmental damage
- Punitive damages
- Fines and penalties imposed by government orders
- Defense costs

Managing risk

Aon's Environmental Services Group is constantly managing new risks, evolving regulations, and working with unique projects for our clients. Our team can help mitigate further damage and take preventative action in situations such as:

- Contamination from historical usage of properties (e.g. legacy issues from improperly maintained polychlorinated biphenyls (PCB)) containing equipment and transformers
- Unknown pollution liabilities associated with property transfer or divestiture
- Leaks and spills from the storage of large quantities of acids, bases, solvents, diesel fuel, lubricant oils, etc. into the soil and groundwater
- Asbestos and lead based paint exposures from remodeling activities on the associated buildings
- Risks from tenant's operations (e.g. gas stations, dry cleaners)

Environmental loss scenarios

The following examples demonstrate some of the ways in which real estate owners and managers may experience environmental losses.

Loss example no. 1

There was a mold claim that impacted 131 out of 210 patient rooms at a regional medical center in Oxnard, California. The mold impacted drywall and other interior materials, which were later removed and the entire structure was fumigated with carbon dioxide to eliminate the mold. The remediation cost totaled more than USD 26M.

Loss example no. 2

A real estate company purchased a strip mall (including a gas station) in Toronto based upon the satisfactory conclusions presented in the pre-acquisition phase I and II environmental site assessment reports. Shortly after the purchase, the underground storage tanks had to be replaced by the tenant. As part of the tank removal requirements, the tenant's contractor sampled the surrounding soil and groundwater to a greater depth than previously tested. Groundwater sampling results showed gross exceedances of petroleum hydrocarbons. Resulting remediation costs were in excess of CAD 1M.

Loss example no. 3

Litigation was initiated by a water district against three real estate companies for freon contamination of a water supply well used by local residents. These three companies then filed a third-party claim against the insured as the prior owner of the facility from which the contamination discharged. Freon, which was leaking from an air conditioning system, impacted the water supply well. A CAD 2M water treatment system was installed by the local authorities to treat the impacted water.

Loss example no. 4

During the course of construction a real estate company discovered an unknown plume of petroleum hydrocarbons. Work on the site was halted and over 50,000 tonnes of soil and contaminants were removed to a hazardous waste disposal facility. Resulting business interruption and disposal costs were in excess of CAD 3M.

We're here to empower results

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The Aon difference

- Largest dedicated team of environmental insurance brokerage professionals and claims advocacy in Canada
- Broad service offering including: environmental liability, focused contract management/consulting, and environmental risk identification/assessment
- Innovators within the marketplace
- Leading market share in environmental liability insurance placements from within a single practice group