

REAL ESTATE INVESTMENT TRUSTS (REITS)



What is a Real Estate Investment Trust (REIT)?

A REIT is a company that owns and operates income-producing real estate which allows individuals to invest in a large-scale property investment portfolio. These companies are either publicly traded or privately controlled, but all REITs operate on the primary basis of generating income for its investors through the leasing of space and collection of rent on properties. REITs can deploy their resources on a regional or national-based platform, and either specialize in a specific real estate sector or fund a mixed-portfolio of properties for diversification.

Examples of real estate investment sectors include the following:

- Multi-tenant Habitational (apartment or condominium)
- Commercial/Light Industrial
- Retail
- Warehousing/Distribution
- Office
- Education
- Healthcare

Typical environmental exposures:

1. **Potential contamination** from **tenant operations and activities**, such as the use of pesticides or cleaning agents, storage of hazardous materials in drums or tanks, use and storage of fuels or lubricants, or the storage of product or raw materials.
2. **Migration of contamination** onto the property from **offsite sources** such as nearby service stations, industrial sites, dry cleaners, or existing groundwater contamination.
3. **Indoor air quality** impacts caused by **Legionella, mold, or vapor intrusion** within older buildings arising from leaking pipes, faulty heating and air conditioning, faulty windows, or existing contamination under the slab of the building.

4. Acquisition of properties with **unknown historical contamination** that may be released, discovered, or exacerbated by property “build outs” for tenants and expansion activities.
5. **Building improvements** to increase market value of acquired properties for higher rent returns that may lead to the disturbance of existing **asbestos, lead paint, Poly-chlorinated bi-phenols (PCBs), or other hazardous substances.**

Claim scenarios:

- **Mold Liability: \$1.25M**
Tenants of an apartment complex alleged that exposure to mold impaired their ability to function. Bodily injury claims included headaches, inability to concentrate, and difficulty breathing. The tenant filed a lawsuit. Defense costs were over \$1M and the settlement costs were over \$250,000.
- **Property Damage and Bodily Injury: \$1.1M**
An ammonia gas leak was detected at a food processing and refrigeration warehouse which used the gas as a refrigerant. The release caused an evacuation of everyone within a one-mile radius of the warehouse. There were inhalation related injuries to seventy-five people and damage to food products loaded on trains for delivery. Five people were sent to intensive care for complications related to lung damage. The property damage costs were \$50,000, while bodily injury and defense costs exceeded \$1M.
- **Remediation Expense and Defense Costs: \$1.3M**
The owner of an industrial park was notified by the state environmental agency that it had received a complaint regarding groundwater contamination at a neighboring site. They requested an investigation at the industrial park. The investigation indicated that a former tenant at the industrial park caused the contamination. The former tenant fought the allegation. The state ordered the owner to start remediation of the site. The owner then sued the tenant for recovery of remediation costs, and had to defend lawsuits from neighbors surrounding the industrial park. The investigation, remediation expense, and legal costs exceeded \$1.3M.
- **Bodily Injury and Business Interruption: \$65,000**
A commercial building held a medical clinic as a tenant. A release of gas from the clinic occurred, which required the evacuation of the building and caused lung damage to several third parties. Other tenants were not able to return for several days while the situation was investigated and the site approved for occupancy. The building owner paid claims for business interruption and bodily injury to the third parties.

PHLY E&S Solutions offers Premises Environmental Coverage (PEC) for real estate portfolios and real estate investment trusts. The form provides protection from contamination caused by facility operations, pre-existing conditions, contamination migrating from third parties, maintenance, and/or construction activities. Additional coverages built into the form include: transportation, non-owned location (disposal), business interruption, and full limits for emergency expense.



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