

Real Estate Industry



This study reflects on information derived from insurance claims. These claims form a database that can be analyzed to determine the many and varied causes of loss. CNA Risk Control presents this study of specific CNA claims and industry trends. We begin with a review of exposures inherent to real estate and conclude with suggested practices to manage these risks.

Real Estate Industry Defined

For the purposes of this study, real estate companies are defined as companies that include owners, managers and/or developers of retail, industrial, medical office or business office facilities and include residential and nonresidential properties, such as apartments, office and retail buildings, shopping malls, theaters, industrial space, assisted living facilities, and retirement communities.

The US real estate management industry includes 220,000 companies generating about \$160 billion in annual revenue.¹ The real estate management industry breaks down as follows:

- Local real estate brokers - 60,000
- Non-owner property managers - 50,000
- Owner/managers - 110,000²

Only the largest real estate companies have revenues exceeding \$1 billion; whereas, most companies have annual revenues less than \$10 million.³

There is a notable range in company size within this fragmented industry. The largest property owners hold only a small fraction of the total US market, which includes 34 million apartments; 700,000 office buildings; 1.3 million retail buildings; and 2.5 million other commercial buildings. The average size of retail and office properties has not changed significantly in 20 years: 10,000 square feet for retail buildings and 15,000 square feet for office buildings.⁴

Real Estate: An Analysis of Loss Exposures in the Real Estate Industry

Real estate companies face both traditional loss exposures, such as employee injuries, automobile accidents, liability claims and property losses, as well as unique exposures related to accidents to the public occurring on the premises managed.

According to this study, the primary liability exposure on all types of real estate property are injuries from slips, trips and falls. The lessor will probably be ultimately liable for bodily injury or property damage claims that occur on the property resulting from on-site maintenance operations such as landscaping and repairs.

Many real estate operations include special exposures related to the size and type of the structure, security required, playground equipment, pools, and even the pet policy all of which can increase the owner's degree of exposure and liability.

The following is a review of exposures based on an analysis of claims incurred by real estate companies insured by CNA between January 1, 2004, and December 31, 2007.

Workers' Compensation Claims

Top Five Incidents Causing the Injury, Shown as a Percentage of Total Claims

Incident Type	Percent of Total Claims
Slips/Trips/Falls on the Same Level	21%
Manual Handling/Physical Stress	18%
Struck By	9%
Repetitive Motion	8%
Struck Against	8%

Top Five Incident Types, Shown as a Percentage of Total Claim Dollars

Incident Type	Percent of Total Claim Dollars
Slips/Trips/Falls on the Same Level	24%
Manual Handling/Physical Stress	20%
Vehicle Accident	13%
Repetitive Motion	10%
Fall From Elevation	7%

The data indicates that workers in the real estate sector are most likely to suffer injuries from trips and falls, manual material handling incidents and struck by accidents. These injuries are typically caused by poor housekeeping and material movement.

Slips, Trips and Falls on the Same Level

Workers in this industry segment are especially vulnerable to slip, trip and fall injuries primarily because of the nature of the real estate maintenance operations. Although these type of injuries occur throughout buildings, they are also prevalent in outdoor areas affected by rain and snow. Slip and fall injuries are common during building repair activities involving plumbing repair and floor maintenance.

Manual Material Handling, Physical Stress and Repetitive Motion Incidents

These claims are caused by the manual handling of a variety of work-related materials involved in building maintenance. They include manual movement of building supplies, appliances, cabinets, and trash containers. A number of manual material handling incidents involve snow shoveling, digging and grounds maintenance.

Repetitive motion injuries are common in this industry segment for real estate brokers and agents due to typical office exposures relating to keyboard use.

Struck By or Struck Against Incidents

Workers in this industry segment must move supplies, materials, appliances and other objects that, when dropped or walked into, may cause a struck by or struck against injury. In addition, a large percentage of these types of incidents occur during building maintenance operations. The most serious of these incidents, however, involve workers coming in contact with electrical systems.

Property Claims

Top Five Incidents Causing the Loss, Shown as a Percentage of Total Claims

Incident Type	Percent of Total Claims
Water Damage	24%
Wind Damage	23%
Struck By Vehicle	9%
Fire	8%
Vandalism And Malicious Mischief	8%

Top Five Incident Types, Shown as a Percentage of Total Claim Dollars

Incident Type	Percent Of Total Claim Dollars
Wind Damage	49%
Fire	22%
Water Damage	15%
Hail Damage	4%
Theft	1%

Property claims data shows that wind and water damage are the most frequent types of loss with wind damage being the dominate incident type in terms of severity.

Fire

Fire losses include damage to property at business locations. Causes of fire losses include electrical ignition sources, careless smoking, poor housekeeping, poor machinery maintenance and exterior exposures.

Wind and Water Damage

Wind and water property damage to roofs and buildings are caused almost exclusively from hurricanes in the southern tier of the United States.

Auto Claims

Top Five Incidents Causing the Injury, Shown as a Percentage of Total Claims

Incident Type	Percent of Total Claims
Rear-ended Other Vehicle	14%
Struck By Object	13%
Backed Into Claimant	9%
Insured Vehicle Struck Parked Car	6%
Other Vehicle Rear-ended Insured	5%

Top Five Incident Types as a Percentage of Total Claim Dollars

Incident Type	Percent Of Total Claim Dollars
Rear-ended Other Vehicle	18%
Not Otherwise Classified	16%
Failed to Yield	10%
Other Vehicle Rear-ended Insured	8%
Lost Control of Vehicle-Left Road	4%

Analysis of auto claims reveals one of the most preventable types of accidents, rear-ending other vehicles, as the leader in terms of frequency and severity. This industry exhibits a wide variety of auto claims within each category.

General Liability Claims

Top Five Incidents Causing the Loss, Shown as a Percentage of Total Claims

Incident Type	Percent of Total Claims
Slips/Trips/Falls on Same Level	59%
Struck By Object	9%
Fall From	7%
Damage Not Otherwise Classified	8%
Leaking/Seeping	3%

Top Five Incident Types, Shown as A Percentage Of Total Claim Dollars

Incident Type	Percent of Total Claim Dollars
Slips/Trips/Falls on Same Level	58%
Fall From	8%
Struck By Object	8%
Fire/Explosion	6%
Assault/Battery	4%

Slips, Trips and Falls on the Same Level

The major liability claim in the real estate industry involves slips and falls on level surfaces in terms of both frequency and severity. This study considers this incident type a major factor in controlling liability costs.

Slip and Fall Prevention

For real estate operations, even a minor slip, trip or fall-related injury can result in hefty payouts to injured parties, lost profitability and increased liability insurance premiums. This study reveals these types of incidents are the most common and expensive for property owners and managers. An effective slip- and fall-prevention program can have a positive impact on a management company's bottom line regardless of the size of the business.

According to the National Safety Council, slips, trips and falls on the same level constitute one of the leading causes of accidental deaths and injuries in the United States.⁵

Major causes for these accidents include:

- Lack of slip resistance on walking surfaces
- Poor walking surface conditions
- Poor visibility
- Lack or poor condition of handrails and guardrails
- Poor accessibility

A slip and fall prevention management program must consider the following loss areas to be effective.

Slips

Slips happen where there is too little friction or traction between the footwear and the walking surface. Control programs should eliminate common causes of slip and falls:

- Wet or oily surfaces
- Occasional spills
- Weather-related hazards
- Loose, unanchored rugs or mats
- Walking surfaces that do not have same degree of traction in all areas

Trips

Trips happen when the foot strikes an object causing a loss of balance leading to a fall. The number of trips and falls can be reduced by correcting the following problems:

- Obstructed view
- Poor lighting
- Cluttered walkways
- Wrinkled carpeting
- Uncovered cables
- Open drawers
- Uneven walking surfaces
- Loose or damaged floor mats

Flooring

Floor surfaces and materials may contribute to slips and falls among employees and the general public. Proper choices in flooring materials, use of special finishes, mats, tapes, grooving, texturing and keeping the floor clean and dry can prevent slips and falls.

A principal cause of floor accidents is the inherent slipping hazard of various types of floor surfaces. Terrazzo, marble, ceramic tile, painted wood or concrete, metal and some vinyl floors may be slippery unless non-slip measures are taken. Carpet is less slippery.

Safety, appearance, initial cost, durability and maintenance costs influence the selection of flooring type.

Housekeeping

Good housekeeping is the first and the most important element in preventing falls due to slips and trips. It includes:

- Cleaning all spills immediately
- Marking spills and wet areas
- Mopping or sweeping debris from floors
- Removing obstacles from walkways
- Keeping walkways free of clutter
- Securing mats, rugs and carpets that do not lay flat
- Closing file cabinet or storage drawers
- Covering cables that cross walkways
- Keeping working areas and walkways well lit
- Replacing used light bulbs and faulty switches

Suggested Practices

The analysis of claim data presented here suggests a number of practices that could be effective in reducing losses. These practices have been implemented by real estate companies and have been effective in reducing claim costs and increasing profitability.

Implementation of a comprehensive safety program that addresses employee safety, and the safety of others that may be affected by the company's operations, is key to reducing workers' compensation, liability, auto and property losses in the real estate industry.

- Employee Safety** — Manual handling, physical stress and repetitive motion injuries are also loss leaders in our claim analysis for the real estate industry. An ergonomics program can protect workers from these types of injuries and increase productivity. Likewise, an effective safety program that raises employee safety awareness and helps to control and eliminate hazards will minimize the impact of other loss sources, such as slips, trips and falls and struck by accidents.

CNA's ErgoPRO is a six-step ergonomic process that provides the knowledge, work method techniques, engineering guidelines and information required to integrate the human factor with the overall production process. This process offers specific solutions to the frequent injuries related to the manual handling of materials in the real estate industry. CNA's "Motion is Money" process takes the subject to the next level by directly relating ergonomic concepts to measurable improvements in productivity and profitability.

Other CNA resources include risk control industry guides and bulletins on worker safety and loading dock safety.

- Auto** — Fleet safety is an essential part of any business' safety program. Even if the company does not operate a fleet of company-owned vehicles, few companies can operate without at least occasional business use of hired or non-owned vehicles by their employees.

This analysis of real estate industry claims indicates accidents in which the insured driver rear-ended another vehicle as the leading loss source in terms of frequency and severity. A fleet safety program that includes screening driver qualifications raises driver safety awareness and implements driver accountability procedures that can have a tremendous impact on this type of preventable accident.

As a result, CNA offers a Fleet Institute for the real estate industry to address the issues and exposures presented in this study. CNA offers resources to aid in the implementation of a fleet safety program, including guides and bulletins on managing fleet safety, accident prevention and driver safety awareness.

- Property** — A program for managing property risks is crucial in the prevention and mitigation of potentially catastrophic property losses. The claim data reveals that high-severity fire claims account for the majority of total incurred property losses for this industry segment.

Property protection programs include emergency response plans, self-inspection procedures and other special procedures related to maintenance of fire protection systems and control of ignition sources.

Two areas of special emphasis for the real estate industry are emergency response planning and security.

- Emergency Response Planning** — Plans need to be in place to respond to developing situations such as windstorms, earthquake and floods. Plans should include the immediate action that needs to be taken to minimize damage as well as well thought out plans to return the company to full production. Together, these plans provide processes to recover from disruptions related to risks that may be natural, technological or human in nature. These plans serve to minimize interruptions to operations that not only may cause loss of business income but also liability claims related to damage to property of others, loss of data of others, and interruptions of product delivery to customers.

The claim analysis shows high-severity losses for this industry segment are from a variety of causes including fire, snow and ice, and wind damage due to hurricanes. These high-severity losses show the importance of the need for formal, tested emergency response plans.

- **Security** — Managing physical security should be a priority for the real estate industry. While burglary and theft are issues, the largest security related claims are from assault and battery of building patrons. In general, security is about access control and assault deterrence. Carefully crafted policies and procedures can address these exposures and are especially effective when coupled with relatively inexpensive security monitoring equipment.

A preventative technique in deterring assaults is to provide adequate exterior lighting which is sometimes overlooked by building management. Metal theft losses, such as copper HVAC equipment, can also benefit from using adequate exterior lighting.

CNA offers a variety of resources for the management of property risks. These tools include guides and bulletins on emergency response planning, property protection and guidelines addressing both physical security and information risks.

- **Liability** — An effective safety program also helps to control and eliminate hazards that may cause bodily injury or physical damage to others, creating liability for your organization. As reflected in this study, these types of incidents can occur both on the premises and at offsite locations. The scope of the liability safety program should address premises exposures.
- **Slip and Fall Prevention** — As previously discussed, an effective slip and fall prevention effort must be comprehensive and ongoing. Single solution remedies are seldom effective and should be avoided. While seemingly overwhelming, building managers have access to a wealth of resources to help develop and administer effective slip and fall prevention programs that are cost effective. An example is a floor auditing program that objectively evaluates the effectiveness of cleaning procedures. Using sophisticated instruments to objectively measure floor “slipperiness” can tell management if cleaning crews are doing their jobs and help managers select the most cost efficient materials to use for cleaning their walking surfaces.
- **Playgrounds and Swimming Pools** — Playgrounds must be fully maintained and fenced. Equipment must be in conformance with Consumer Products Safety Commission guidelines. The surface beneath the playground equipment must be soft using materials such as rubber, grass, mulch, or sand.

Access to swimming pools must be strictly controlled. Outdoor pools must be fenced and effective barriers in place to prevent small children from gaining access to them. Anti-entrapment devices must be in place in pools to prevent drains from trapping small children.

- **Negligence in Repairs** — A documented preventive maintenance program is a good investment for any building owner. A critical element in such a program is an ongoing, documented inspection program of housekeeping practices, stairs and steps, handrails, lighting, indoor and outdoor walking surfaces, roofs, electrical, plumbing, HVAC systems and the like. Deteriorating conditions should be remedied as soon as possible to prevent liability incidents.

CNA Risk Control has created a Real Estate “Boot Camp” to provide insureds with more detail on the suggested practices identified in this industry guide and additional resources to help better manage your insurance risks.

School of Risk Control Excellence

Courses applicable for the Real Estate Industry:

- Building Your Business Continuity Plan (BCP)** – Covers elements necessary in a BCP strategic plan to help restore and keep critical business functions going within the first 72 hours of a disaster
- Emergency Planning** – Provides guidelines for developing and implementing emergency plans at various facilities
- Fire Protection, Inspection, Testing and Maintenance** – Discusses NFPA 25 requirements for inspection, testing and maintenance of fire protection systems
- Infrared (IR) Thermography** – Explains the science behind IR, potential benefits that can help reduce costs by reducing losses
- Real Estate Boot Camp** – Addresses industry loss drivers from a safety and industrial practice viewpoint
- Slips, Trips and Falls** – Explains how to implement an effective slip, trip and fall prevention program
- Steps to Address Indoor Environmental Complaints** – Focuses on top 10 indoor complaints and provides effective steps to maintaining good office morale and productivity

To find out more about these classes, go to: www.cna.com/riskcontrol

Footnotes

¹ First Research, Quarterly Update, Real Estate Brokerage and Management, 2/18/08

² Id

³ Id

⁴ Id

⁵ Accident Facts, National Safety Council, 2007

To learn more about how CNA Risk Control can work with you to help you mitigate risks, please speak with your local independent agent, call us toll-free at 866-262-0540, or view our Risk Control tools online at www.cna.com/riskcontrol.

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