

Mold Fears Jeopardize Real Estate Transactions

Mold problems are injecting an element of chance into real estate deals, according to a recent survey of builders and real estate lenders conducted by the Environmental Assurance Group, based in Hartford, Conn.

When asked whether they believe that mold can affect the value of a real estate transaction, 99 percent of respondents said yes. Of those surveyed, 60 percent reported hearing of parties who had backed out of real estate transactions due to the fear that mold problems might exist. Possible mold liability involving investment properties was a concern among 76 percent of executives. In addition, respondents familiar with specific mold-related incidents said that it would have taken an average of more than \$300,000 to fix the problems.

Developers, architects, construction executives, and mortgage lenders are taking precautions to protect themselves because of the mold exclusions recently written by the insurance industry on property and business policies, according to EAG. "Our latest survey shows that mold fear is growing exponentially among the major stakeholders in the real estate business in a post-insurance world," said Charles Perry, a principal with the firm. "It's clear that, without the emergence of a new risk mitigation method, doing a real estate deal nowadays is just a roll of the dice, which is why the insurance industry bowed out."

Nationwide, mold often is excluded on property and casualty coverage, business risk insurance, and directors & officers policies. "Who is going to pay for mold-related cleanup and rebuilding on a contaminated hotel, condo, affordable housing complex, or hospital/health-care facility?" asked Perry. "If property owners decide to default, how much is the mold-ridden loan collateral worth? From a financial standpoint, we're in new and terrifying territory."

The building and lending industries cannot seem to find a consensus on dealing with mold risk mitigation, according to EAG. "Some still hold out hope that a cure will be found," said Perry. "Unfortunately, mold cannot simply be scraped away like asbestos or lead paint. As more stakeholders acknowledge the scientific fact of mold's resilience, we will see a groundswell begin to form for a new mold prevention protocol, which focuses on removing the possibility of mold entering a structure."

When asked about mold prevention programs for new construction, 96 percent of those surveyed said that they would favor a program that included a new construction protocol, the use of mold-resistant building materials, and inspection regimes with sign-offs or certifications. The biggest factor in a decision to approve a mold prevention protocol would be a preferred mortgage rate, according to 59 percent of the respondents. Having mold included in their insurance coverage (49 percent), positive effects on resale ability and price (47 percent), and reductions in insurance premium (39 percent) also rated highly as influential factors for supporting mold prevention protocols.

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