



## ARCHITECTURE FIRMS CLAIMS STUDY

# Annual billings of \$5 million or less

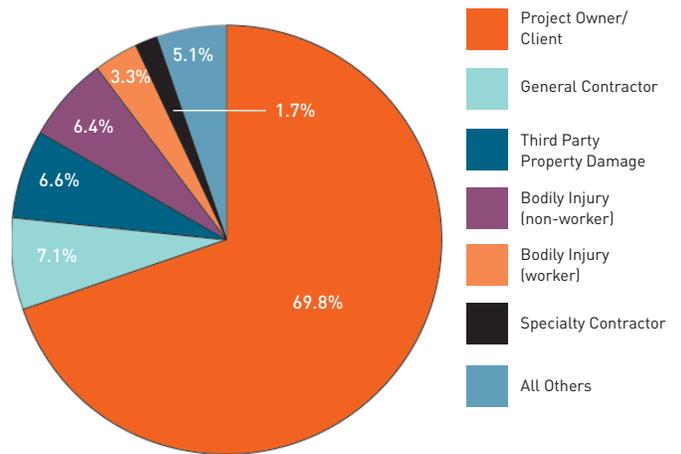
From 2010 through 2019, project owners filed the most claims against architects with annual billings of \$5 million or less. 69.8% of all claims against these architects were filed by project owners, with claims from general contractors constituting the second highest amount of claims at 7.1%. Third-party property damage brought the third most claims at 6.6%.

Most claims against architects are filed by project owners because of the contractual relationship between the architect and project owner. Project owners will sometimes file a claim against the architect in response to a claim filed against the project owner by the contractor.

Claims filed by contractors may be linked to those states that have abandoned the economic loss doctrine. Abandonment of the doctrine allows contractors to sue architects directly for allegations of financial harm, even though there is no contractual relationship between the two.

Claims filed by third parties for bodily injuries often are the result of the architect assuming some responsibility for construction site safety either through contract or behavior. Liability for third-party bodily injury may also result from the architect's failure to design or specify proper safety aspects of the project, such as handrails or non-skid surfaces.

Frequency of Claims by Claimant ID (2010 - 2019)



For more information about client selection, please refer to our publication, [Project Risk Matrix](#).

For more claims information, please visit Victor's library of claims and case studies under [Managing Your Project](#) and [Running Your Firm](#).

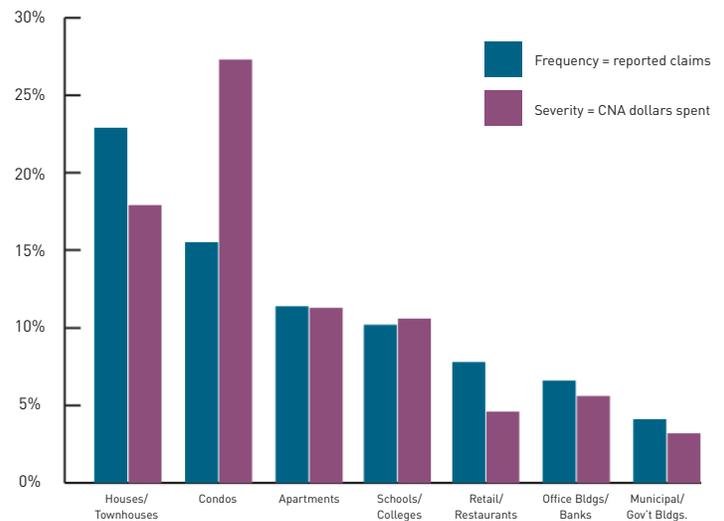
Claims happen most frequently on residential projects. Compared to the reported billings by firms, the claims frequency, where defense costs are always involved, and claims severity, where payments are made on behalf of firms, are significantly higher than on any other project type.

From 2010 through 2019, claims against architecture firms with annual billings of \$5 million or less involved house/townhouse projects at 22.9%. This project type had the second highest dollars spent percentage at 17.9%. Condo projects ranked second in frequency at 15.5% and first in severity at 27.3%. Apartments were not too far behind. With any type of residential project, the greatest risk to the architecture firm is the client—either because the client brings claims against the designers for cost recovery efforts or because the client is simply unwilling to invest in the design and ancillary services necessary to increase the quality of the design and construction effort.

If the developer client has past condo or apartment experience and is interested in preserving its reputation in the marketplace, the project has a greater likelihood for a less litigious future. Developers who are “build it quickly and leave it quickly” types often have tight budgets and short lives. They are often legally organized to have few assets and to let others, often the design team, be targets for claims demanding the remediation of deficiencies in the project.

At times, townhouses, apartments, and especially condos have design or construction deficiencies, such as those causing water intrusion, that are repeated in multiple units. Apartment dwellers often “move away from the problems” while the project developer or subsequent owner brings claims. Those who have invested in purchasing a townhouse or condominium and see their expectations shattered and feel their assets misspent look to recover costs for any real or perceived defect. And there is a large community of plaintiff attorneys who are willing to find ways to assist in assuaging the harm felt by purchasers and their homeowner associations through litigation against any party that could have been responsible for the issues.

**Project Type Claims by Frequency/Severity: Nationwide (2010 - 2019)**



School projects also can lead to significant claims and indemnity payments. Unlike residential projects, however, the cost of claims is not as significantly out of line with the billings reported for the services provided by architecture firms. Often, claims occur as a way to show taxpayers or donors that the funding for school projects was not ineffectively spent. School projects are usually deadline drive with little or no possibility of time extensions for construction. Because of the need to have a facility open at the start of a school year, claims for consequential damages—the cost to the client caused by delays—can be significant.

School projects require special expertise and a skill set that centers on educating clients on the importance of the design team consulting with the stakeholders and final decision-makers during the design process and representing the interests of the clients during construction. Since construction of public schools is often on a low-bid basis, claims can be avoided if there are strong communication channels, clear contractual obligations, and realistic understanding of the need for flexibility in bringing the project to completion.

For architects in the East with annual billings of \$5 million or less, houses/townhouses projects wreaked havoc on a firm's practice. This project type generated the highest claims count (25.5%) and dollars spent (23.2%) percentages. Condos (15.0%) and apartments (13.3%) had the second and third highest claims count percentages. Condos and schools/colleges projects generated higher dollars spent percentages versus their claims count percentages.

Two of the biggest problem areas were interior construction (31.8% / 24.3%) and building exterior closure (12.4% / 16.5%). These problem areas contributed to the high percentage of dollars spent on behalf of architects for these project types.

### States in East Region

CT, DC, DE, MA, MD, ME, NH, NJ, NY PA, RI, VA, VT, WV

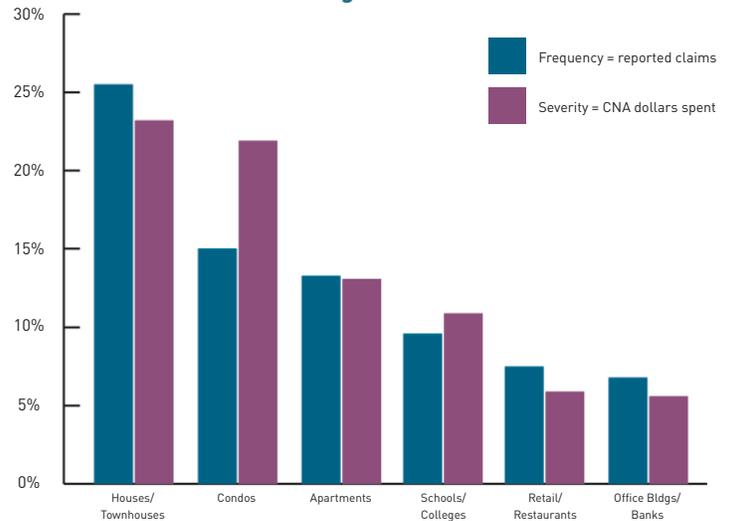
### States in South Region

AL, AR, FL, GA, KY, LA, MS, NC, OK, SC, TN, TX

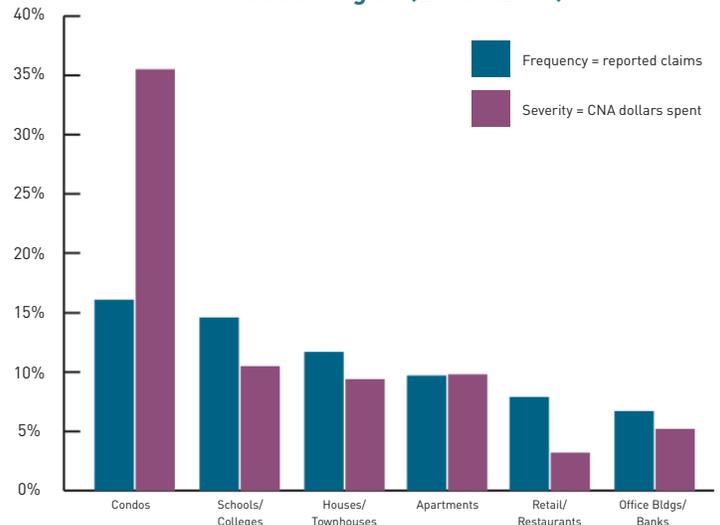
For smaller firm architects in the South, condos, schools/colleges, and houses/townhouses projects accounted for the three highest claims count percentages at 16.1%, 14.6%, and 11.7%, respectively. Condos, schools/colleges, and apartments projects accounted for the three highest dollars spent percentages at 35.5%, 10.5%, and 9.8%, respectively. Condos projects were especially problematic with a dollars spent percentage more than twice the claims count percentage.

Interior construction (26.9% / 24.3%), building superstructure (24.6% / 29.0%), and plumbing/HVAC/fire protection systems (10.9% / 7.4%) were the three biggest problem areas.

**Project Type Claims by Frequency/Severity: East Region (2010 - 2019)**



**Project Type Claims by Frequency/Severity: South Region (2010 - 2019)**



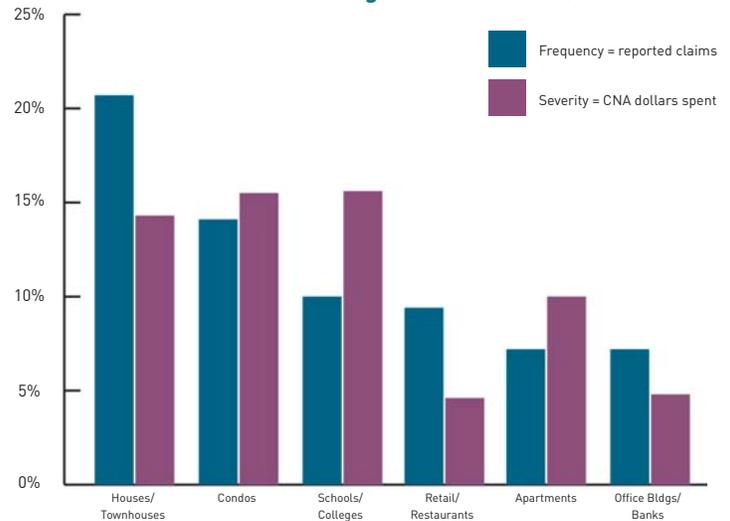
Houses/townhouses projects in the Midwest had the highest claims count (20.7%) and third highest dollars spent (14.3%) percentages for architects. Condo projects ranked second with a 14.1% claims count and dollars spent percentage of 15.5%, with schools/colleges first in dollars spent at 15.6%.

Building exterior closure (23.6% / 37.9%), interior construction (22.5% / 16.5%), and building superstructure (11.5% / 17.5%) were the biggest problem areas for architects on all project types in the Midwest.

### States in Midwest Region

IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI

**Project Type Claims by Frequency/Severity: Midwest Region (2010 - 2019)**



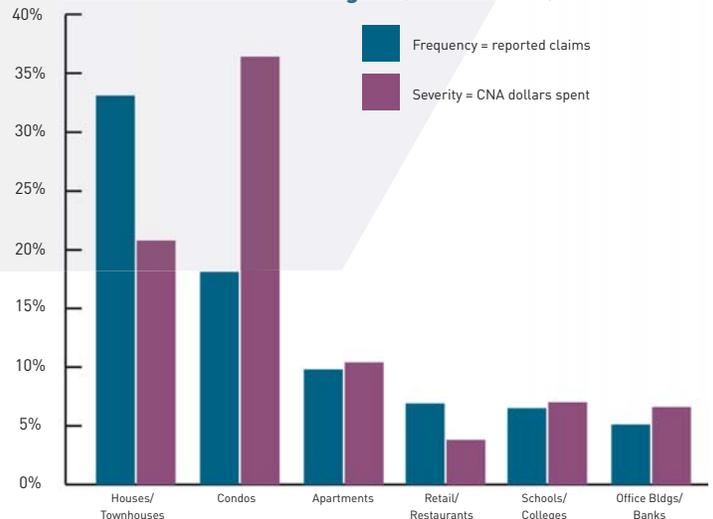
### States in West Region

AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

Houses/townhouses projects accounted for the highest claims count percentage (33.1%) in the West. Condo projects ranked second in claims count at 18.1% and first in dollars spent at 36.4%. Condos, apartments, schools/colleges, and office buildings/banks all had dollars spent percentages that outpaced their claims count percentages. Houses/townhouses and condo projects (20.8% and 36.4%, respectively) were both problematic in terms of dollars spent percentages.

Building superstructure (30.8% / 43.5%) and interior construction (23.2% / 20.9%) were big problem areas out West for architects with \$5 million or less in annual billings across all project types.

**Project Type Claims by Frequency/Severity: West Region (2010 - 2019)**



**Visit us at [victorinsuranceus.com/schoolofriskmanagement](https://victorinsuranceus.com/schoolofriskmanagement) to learn more.**

This document is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.

© 2020 Victor Insurance Services Inc. in MN | DBA in CA and NY: Victor Insurance Services | CA Ins. Lic. # 0156109