Illinois Official Reports

Supreme Court

***Acuity v. M/I Homes of Chicago, LLC*, 2023 IL 129087**

Caption in Supreme Court:	ACUITY, a Mutual Insurance Company, Appellant, v. M/I HOMES OF CHICAGO, LLC, *et al.* (M/I Homes of Chicago, LLC, Appellee).
Docket No.	129087
Filed Rehearing denied	November 30, 2023 January 22, 2024
Decision Under Review	Appeal from the Appellate Court for the First District; heard in that court on appeal from the Circuit Court of Cook County, the Hon. Allen P. Walker, Judge, presiding.
Judgment	Appellate court judgment affirmed in part and reversed in part. Circuit court judgment reversed and remanded.
Counsel on Appeal	Joseph P. Postel, of Lindsay, Pickett & Postel, LLC, and Glenn F. Fencl and Garrett L. Boehm Jr., of Johnson & Bell, Ltd., both of Chicago, for appellant. Eric P. Sparks, Mark D. Brookstein, Alison L. Constantine, and Patrick J. Johnson, of Gould & Ratner LLP, of Chicago, for appellee. Laura Foggan (*pro hac vice*) and Rachel A. Jankowski, of Crowell & Moring LLP, of Washington, D.C., for *amici curiae* Complex Insurance Claims Litigation Association *et al.*

Clifford J. Shapiro, of Shapiro Dispute Resolution LLC, of Wilmette, and Patrick J. Wielinski (*pro hac vice*), of Cokinos Young, of Dallas, Texas, for *amici curiae* Associated General Contractors of America *et al.*

Justices

CHIEF JUSTICE THEIS delivered the judgment of the court, with opinion.

Justices Neville, Overstreet, Holder White, Cunningham, Rochford, and O'Brien concurred in the judgment and opinion.

OPINION

¶ 1 In this case, we are asked to consider whether Acuity, a mutual insurance company, has a duty to defend its additional insured, M/I Homes of Chicago, LLC (M/I Homes), under a subcontractor's commercial general liability (CGL) policy, in connection with an underlying lawsuit brought by a townhome owners' association for breach of contract and breach of an implied warranty of habitability. The Cook County circuit court granted summary judgment in favor of Acuity, finding no duty to defend because the underlying complaint did not allege "property damage" caused by an "occurrence" under the initial grant of coverage of the insurance policy. The appellate court reversed and remanded, finding that Acuity owed M/I Homes a duty to defend. 2022 IL App (1st) 220023. For the following reasons, we affirm the appellate court's judgment, in part, and reverse and remand in part.

¶ 2 I. BACKGROUND

¶ 3 The underlying litigation stems from alleged construction defects in a residential townhome development in the village of Hanover Park, Illinois. Neumann Homes was the initial developer of the property, but M/I Homes took over the project, constructed additional townhomes, and then sold all the properties after assuming Neumann Homes' assets and liabilities.

¶ 4 The townhome owners' association, through its board of directors (Association) subsequently filed an action on behalf of the townhome owners for breach of contract and breach of the implied warranty of habitability against M/I Homes as the general contractor and successor developer/seller of the townhomes. The claim was brought pursuant to section 1-30(j) of the Common Interest Community Association Act (Act), which states, "The Board shall have standing and capacity to act in a representative capacity in relation to matters involving the common areas or more than one unit, on behalf of the members or unit owners as their interests may appear." 765 ILCS 160/1-30(j) (West 2020).

¶ 5 As relevant to this appeal, the Association alleged that M/I Homes' subcontractors caused construction defects by using defective materials, conducting faulty workmanship, and failing to comply with applicable building codes. As a result, "[t]he [d]efects caused physical injury to the [t]ownhomes (*i.e.* altered the exterior's appearance, shape, color or other material

dimension) after construction of the [t]ownhome[ ] was completed from repeated exposure to substantially the same general conditions." The defects included "leakage and/or uncontrolled water and/or moisture in locations in the buildings where it was not intended or expected." The Association alleged that the "[d]efects have caused substantial damage to the [t]ownhomes and damage to other property."

¶ 6 The Association further alleged that M/I Homes did not intend to cause the construction defects in the townhomes and that M/I Homes neither expected nor intended "the resulting property damage (such as damage to other building materials, such as windows and patio doors, including but not limited to water damage to the interior of units)." Additionally, the Association alleged that M/I Homes did not perform any of the construction work and that the subcontractors performed all the work on its behalf. According to the Association, the work of subcontractors and the designer "caused damage to other portions of the [t]ownhomes that was not the work of those subcontractors."

¶ 7 As a result, the Association alleged that it would be required to repair both the defects and "the damage to other property caused by the [d]efects." Consequently, the Association sought damages for the cost of repairing or replacing the defects and the cost of repairing the damage to other property caused by the defects.

¶ 8 In response to the lawsuit, M/I Homes demanded a defense from Acuity as the additional insured on a CGL policy that Acuity issued to one of its subcontractors, H&R Exteriors, Inc. (H&R). H&R was the named insured under the policy. M/I Homes was an additional insured by virtue of the contract it entered with H&R to perform certain exterior work on the townhome project. Acuity denied that it had a duty to defend M/I Homes as an additional insured under the CGL policy and filed this declaratory judgment action against M/I Homes and the Association.

¶ 9 In its amended complaint for declaratory judgment, Acuity asserted several bases for denying a duty to defend, including that the underlying amended complaint failed to allege any "property damage" caused by an "occurrence" as those terms are defined by the Acuity policy and interpreted by Illinois law. M/I Homes subsequently filed a counterclaim, seeking a declaration that a duty to defend exists because the allegations in the underlying amended complaint fall within, or potentially within, the coverage provisions of the CGL policy.

¶ 10 Thereafter, Acuity and M/I Homes filed cross-motions for summary judgment. Acuity argued that M/I Homes was responsible for the building of the townhomes and that the damages sought by the Association related to the defective construction of the townhomes and not to any other property damage beyond the buildings. Therefore, Acuity maintained that the underlying complaint merely alleged the natural and ordinary consequence of defectively performed work, rather than an "occurrence," which is defined as an "accident." It further argued that the complaint merely alleged economic loss in the form of the cost of repairing and replacing the defective construction work, rather than "property damage." Accordingly, Acuity argued that the allegations failed to fall within the coverage of the policy.

¶ 11 M/I Homes argued in its cross-motion that the Association's claim that there was damage to "other property" was a sufficient allegation of property damage beyond the repair and replacement costs of the faulty construction work. Therefore, it maintained that "property damage" caused by an "occurrence" was sufficiently alleged in the underlying amended complaint, triggering Acuity's duty to defend it.

¶ 12 After briefing and argument, the circuit court granted summary judgment in favor of Acuity and denied summary judgment in favor of M/I Homes. The circuit court found that property damage resulting from the faulty work was not an "occurrence," because it was a natural and ordinary consequence of the construction project and not an accident as required under the policy. While the court posited that faulty workmanship that damaged something other than the townhome project itself could be covered, the court found that was not the case here. Instead, it found that the allegations focused on recovering for damage to the townhomes and "not necessarily other property that could have been damaged by M/I Homes' faulty work." The circuit court subsequently denied M/I Homes' motion to reconsider.

¶ 13 On appeal, the parties agreed with the premise that, under current Illinois law, there could be no "property damage" caused by an "occurrence" under the policy unless the underlying complaint alleged property damage to something beyond the townhome construction project. 2022 IL App (1st) 220023, ¶¶ 29, 31. With that understanding, M/I Homes argued that the Association's claim that there was damage to "other property" was sufficiently pled to satisfy that standard. *Id.* ¶ 29.

¶ 14 The appellate court began its discussion by noting that the parties' shared understanding of the law, that there must be damage to "other property" beyond the townhomes for a duty to defend to arise, was not "directly tied to the language of the insurance policy" but, rather, is derived from appellate court case law interpreting CGL policies. *Id.* ¶¶ 32, 35. The court also noted that these cases acknowledge that their analysis has been driven by broad policy considerations and not by the language of the insurance policy. *Id.* ¶ 36.

¶ 15 The court questioned the different outcomes in the case law based on whether the insured was a general contractor or a subcontractor, and it further questioned "whether, when, and why these terms would mean something different for different parties insured under the same policy." *Id.* ¶ 42. The court additionally observed that commentators have criticized the approach to coverage taken by Illinois cases, noting that the cases do not adhere to principles of contract interpretation and are inconsistent with the trend of cases throughout the country. *Id.* ¶¶ 37-38.

¶ 16 Given the parties' concession, however, the appellate court found it unnecessary to answer these myriad questions but raised them hoping that this court could "bring clarity to these nuanced issues of coverage under CGL policies in construction litigation." *Id.* ¶ 43. Consequently, the appellate court found that "the underlying complaint simply alleges, in the broadest possible terms, that there was damage to 'other property.' " *Id.* After liberally construing the complaint and the insurance policy in favor of the insured and applying the principle that, unless the complaint alleges facts that, if true, would exclude coverage, the court found the potential for coverage. *Id.* Therefore, the court held the broad allegations were sufficient to trigger Acuity's duty to defend. *Id.*

¶ 17 The appellate court also rejected Acuity's argument that the Association lacked standing to sue for damage to individual unit owners' personal property under the Act. The court found that the reference to "other property" was not limited to the property of unit owners (*id.* ¶ 48) but could be a reference to the Association's property in the common areas and that there were no allegations that would clearly exclude coverage (*id.* ¶ 50).

¶ 18 This court allowed Acuity's petition for leave to appeal. Ill. S. Ct. R. 315(a) (eff. Oct. 1, 2021). We also allowed leave to several organizations to file a joint brief as *amici curiae* in

support of Acuity's position.[1] We also allowed leave to certain other organizations to file a joint brief as *amici curiae* in support of M/I Homes' position.[2] See Ill. S. Ct. R. 345 (eff. Sept. 20, 2010).

¶ 19 II. ANALYSIS

¶ 20 This case is presented to us from the trial court's determination on cross-motions for summary judgment arising from a declaratory judgment action. The filing of cross-motions for summary judgment establishes an implicit agreement between the parties that there are no genuine issues of material fact and only a question of law is presented to the court. *Sheckler v. Auto-Owners Insurance Co.*, 2022 IL 128012, ¶ 29. They invite the court to determine the legal issues based on the record. *Id.* We review the court's ruling on a motion for summary judgment *de novo*. *Id.*

¶ 21 In broad terms, the issue in this case is whether Acuity has a duty to defend M/I Homes in the underlying construction defect litigation brought by the Association. The issue requires us to interpret the coverage provisions in the CGL policy, which is also a question of law reviewed *de novo*. See *Addison Insurance Co. v. Fay*, 232 Ill. 2d 446, 451 (2009) ("The construction of a provision of an insurance policy is a question of law, subject to *de novo* review.").

¶ 22 This court has not yet analyzed the specific coverage provisions at issue here in the context of a construction defect case, but the issue has been the subject of much litigation in the appellate court. As the appellate court in this case aptly noted, the case law in this area is in flux. Our appellate court has addressed the initial grant of coverage provided by CGL policies, examining both whether there is "property damage" alleged and whether the alleged damage was caused by an "occurrence." Based on these cases, the parties here have concluded that under Illinois law, unless the underlying complaint alleges damage to "other property" beyond the townhomes, there can be no "property damage" caused by an "occurrence." Consequently, they have focused on whether "other property" was sufficiently pled.

¶ 23 This understanding of Illinois law has developed from cases that have approached the coverage question based on a myriad of rationales and factors. For example, some construction defect cases have focused on the insured's scope of work on the construction project, determining that there can be no "occurrence" if the damage is within the scope of work of the insured and that there can only be an "occurrence" if the defective work causes property damage to something other than the project or building or structure. See, *e.g.*, *CMK Development Corp. v. West Bend Mutual Insurance Co.*, 395 Ill. App. 3d 830, 840-41 (2009); *Stoneridge Development Co. v. Essex Insurance Co.*, 382 Ill. App. 3d 731, 752 (2008) (holding that only construction defects that damage something other than the project itself constitute an occurrence). Other cases have focused on the nature of the damage alleged. See, *e.g.*, *Certain Underwriters at Lloyd's London v. Metropolitan Builders, Inc.*, 2019 IL App (1st) 190517, ¶ 48 (holding that, where the damages alleged are sought for repair and replacement of the

[1]These organizations include the Complex Insurance Claims Litigation Association and American Property Casualty Insurance Association.

[2]These organizations include the Associated General Contractors of America, AGC of Illinois, Central Illinois Builders of AGC of America, Chicagoland AGC, Northern Illinois Building Contractors Association, Southern Illinois Builders Association, American Subcontractors Association, National Association of Home Builders, and Home Builders Association of Illinois.

defective construction, those damages constitute economic loss and therefore do not constitute "property damage" under the policy).

¶ 24 Some other cases have treated these policy terms differently depending on whether the insured is a general contractor or a subcontractor. See, *e.g.*, *Acuity Insurance Co. v. 950 West Huron Condominium Ass'n*, 2019 IL App (1st) 180743 (holding that property damage caused by an occurrence exists where a subcontractor's negligence causes something to occur to a part of the construction project outside the scope of work of the subcontractor).

¶ 25 Cases have acknowledged that much of the analysis has not been directly tied to the principles of contract interpretation but instead on various policy considerations. See, *e.g.*, *Metropolitan Builders, Inc.*, 2019 IL App (1st) 190517, ¶ 32 ("[M]uch of our analysis in those cases has been driven less by literal textual construction and more by considering the overall purpose of CGL policies."). Commentators have observed that the law in this area "lies in chaos." (Internal quotation marks omitted.) See *Viking Construction Management, Inc. v. Liberty Mutual Insurance Co.*, 358 Ill. App. 3d 34, 42 (2005).

¶ 26 Considering the current legal landscape and the unsettled nature of the law in this area, rather than merely begin with the parties' premise, the best approach to bringing clarity to these issues is to return to first principles and apply a disciplined legal framework from which we can arrive at the correct legal analysis and the correct result.

¶ 27 A. Duty to Defend

¶ 28 Undoubtedly, the basic controlling principles for determining whether a duty to defend exists are well settled. The insurer's duty to defend its insured is broader than its duty to indemnify. *Outboard Marine Corp. v. Liberty Mutual Insurance Co.*, 154 Ill. 2d 90, 125 (1992). To determine whether an insurer has a duty to defend its insured from a lawsuit, a court compares the facts alleged in the underlying complaint to the relevant provisions of the insurance policy. *Valley Forge Insurance Co. v. Swiderski Electronics, Inc.*, 223 Ill. 2d 352, 363 (2006). After liberally construing the allegations in favor of the insured, if the facts alleged fall potentially within the policy's coverage, the insurer is obligated to defend its insured. *Id.*

¶ 29 This duty to defend exists even if the allegations are "groundless, false, or fraudulent" and even if only one of several theories of recovery alleged in the complaint potentially falls within the coverage of the policy. *Id.* Thus, "an insurer may not justifiably refuse to defend a lawsuit against its insured unless it is clear from the face of the underlying complaint that the allegations set forth in the complaint fail to state facts that bring the case within, or potentially within, the coverage of the policy." *Id.*

¶ 30 In construing the policy language, we apply the same rules applicable to contract interpretation. *Sproull v. State Farm Fire & Casualty Co.*, 2021 IL 126446, ¶ 19. Our primary objective is to ascertain and give effect to the intent of the parties, as expressed in the policy language. *Id.* "Undefined terms will be given their plain, ordinary, and popular meaning; *i.e.*, they will be construed with reference to the average, ordinary, normal, reasonable person." *Id.*

¶ 31 The court will not adopt an interpretation that "rests on 'gossamer distinctions' that the average person, for whom the policy is written, cannot be expected to understand." *Founders Insurance Co. v. Munoz*, 237 Ill. 2d 424, 433 (2010) (quoting *Canadian Radium & Uranium Corp. v. Indemnity Insurance Co. of North America*, 411 Ill. 325, 334 (1952)). If the policy language is susceptible to more than one reasonable interpretation, it is considered ambiguous

and will be construed strictly against the insurer. *Travelers Insurance Co. v. Eljer Manufacturing, Inc.*, 197 Ill. 2d 278, 293 (2001). Indeed, where competing reasonable interpretations of a policy exist, a court may not choose which interpretation it will follow. *Outboard Marine Corp.*, 154 Ill. 2d at 108-09. Rather, under those circumstances, the court must construe the policy in favor of the insured and against the insurer that drafted the policy. *Employers Insurance of Wausau v. Ehlco Liquidating Trust*, 186 Ill. 2d 127, 141 (1999). Additionally, we construe the policy as a whole, giving effect to each provision where possible because we must assume that the provision was intended to serve a purpose. *Valley Forge*, 223 Ill. 2d at 362.

¶ 32 With these broad principles in mind, we next examine the general components of the CGL policy. The CGL policy is "a very broad liability policy whereby the insurer assumes a wide scope of risks." *Outboard Marine Corp.*, 154 Ill. 2d at 115. The policy is divided into several components, including the "insuring agreement," which sets the outer limits of an insurer's contractual liability, and the "exclusions," which help further define the shape and scope of coverage by excluding certain forms of coverage.

¶ 33 Thus, the first task is to determine whether the allegations in the underlying litigation are potentially covered by the language of the insurance agreement's initial grant of coverage. If it is evident that the policy does not potentially cover the claim asserted, the analysis is complete. If the claim potentially satisfies the initial grant of coverage, the court then examines the various relevant exclusions to determine if any of them limit coverage. If an exclusion applies, the court then looks to see whether any exceptions to that exclusion would apply to reinstate coverage. Generally, the insured bears the burden of proving the claim is covered under the initial grant of coverage, and the insurer bears the burden of proving an exclusion applies. *Fay*, 232 Ill. 2d at 453-54.

¶ 34 1. *Initial Grant of Coverage*

¶ 35 As relevant to this case, the insuring agreement in Acuity's CGL policy states that the insurer "will pay those sums that the insured becomes legally obligated to pay as damages because of bodily injury or property damage to which this insurance applies." The insuring agreement further provides that "[t]his insurance applies to *** property damage only if: *** property damage is caused by an occurrence." Therefore, whether the insurance agreement confers an initial grant of coverage depends upon whether there has been an allegation of "property damage" that is caused by an "occurrence" within the meaning of the CGL policy language.

¶ 36 a. Property Damage

¶ 37 The policy defines "property damage" as "physical injury to tangible property, including all resulting loss of use of that property." Under its plain and ordinary meaning, we have explained that tangible property suffers a "physical injury" if the property "is altered in appearance, shape, color or in other material dimension." *Eljer Manufacturing, Inc.*, 197 Ill. 2d at 301. Conversely, we explained that an injury is not a "physical" injury if that property suffers merely intangible damage, such as diminution in value of a product, resulting from a component part of a product that fails to function as promised. *Id.* at 301-02, 312. In *Eljer*, we concluded that homes where defective plumbing had been installed but the plumbing system

had not yet leaked did not suffer "physical injury to tangible property" and were not therefore within the policy coverage. *Id.* at 314.

¶ 38 The amended complaint here, taken in the light most favorable to the Association, includes allegations that the buyers of the completed townhomes suffered "water damage to the interior of units" because of leaks and/or moisture damage that arose from the subcontractors' faulty exterior work and defective materials. The allegations include the Association's desire to recover the cost of these resulting tangible damages on behalf of the townhome owners.

¶ 39 Under the language of the policy, the resulting water damage to the interior of the completed units plainly constitutes physical injury to tangible property. Allegedly, the interior units have at least been potentially "altered in appearance, shape, color or in other material dimension." See *id.* (stating that water damage to a home due to a leak resulting from an alleged defective plumbing system installed in the home would be physical injury to tangible property). Accordingly, the allegations sufficiently seek recovery for "property damage" as that term is defined in the initial grant of coverage of the CGL policy.

¶ 40 b. Occurrence

¶ 41 We next consider whether the "property damage" was caused by an "occurrence." An "occurrence" is defined in the policy as "an accident, including continuous or repeated exposure to substantially the same general harmful conditions." The term "accident" is not defined in the policy. Therefore, as with any undefined terms, we apply its plain and ordinary popular meaning with reference to a reasonable person. *Sproull*, 2021 IL 126446, ¶ 19.

¶ 42 This court has not defined the term "accident" in the context of construction defects that result in property damage. Nevertheless, Illinois Appellate Court cases have defined "accident" as follows: Accident normally designates "an unforeseen occurrence, usually of an untoward or disastrous character, or an undesigned, sudden, or unexpected event of an inflictive or unfortunate character." See *Stoneridge*, 382 Ill. App. 3d at 749. The cases then state that "the natural and ordinary consequences of an act do not constitute an accident." *Id.* at 750.

¶ 43 This definition can be traced back to *American Casualty & Surety Co. v. Freyer*, 89 Ill. App. 3d 617, 619 (1980), a case involving not construction defects but, rather, an intentional act of assault and battery. See *Stoneridge*, 382 Ill. App. 3d at 749 (noting that the cases relying on this definition generally stem from *Freyer*). The language in *Freyer*, in turn, can be traced back to this court's decision in *Yates v. Banker's Life & Casualty Co.*, 415 Ill. 16, 19 (1953).

¶ 44 In *Yates*, this court adopted the definition of accident from the United States Supreme Court's decision in *United States Mutual Accident Ass'n v. Barry*, 131 U.S. 100, 121 (1889). *Yates*, 415 Ill. at 19. The Supreme Court defined an "accident" as " 'happening by chance; unexpectedly taking place; not according to the usual course of things; or not as expected;' *** if, in the act which precedes the injury, something unforeseen, unexpected, unusual occurs which produces the injury, then the injury has resulted through accidental means." *Barry*, 131 U.S. at 121.

¶ 45 We held in *Yates* that,

> "[u]nder the rule promulgated in the *Barry case*, if an act is performed with the intention of accomplishing a certain result, and if, in the attempt to accomplish that result, another result, unintended and unexpected, and not the rational and probable

consequence of the intended act, in fact, occurs, such unintended result is deemed to be caused by accidental means." *Yates*, 415 Ill. at 19.

¶ 46 Additionally, the dictionary defines "accident" as an "event or change occurring without intention or volition through carelessness, unawareness, ignorance, or a combination of causes and producing an unfortunate result." Webster's Third New International Dictionary 11 (1993). We also consider Merriam-Webster's online dictionary, which includes in its definition of "accident" "an unfortunate event resulting especially from carelessness or ignorance." Merriam-Webster Online Dictionary, http://www.merriam-webster.com/dictionary/accident (last visited Oct. 30, 2023) [https://perma.cc/ES49-J9FZ].

¶ 47 Based on these definitions, we find that the term "accident" in the policies at issue reasonably encompasses the unintended and unexpected harm caused by negligent conduct. Our finding aligns with the commonly accepted definitions of "accident" in CGL policies in other jurisdictions considering construction defects. See, *e.g.*, *Greystone Construction, Inc. v. National Fire & Marine Insurance Co.*, 661 F.3d 1272, 1284-85 (10th Cir. 2011) (finding "the term 'accident' *** incorporates [both] a 'fortuitous event' [citation] *** [and] 'an *unanticipated* or *unusual result* flowing from a commonplace cause' [citation]" (emphases in original)); *Sheehan Construction Co. v. Continental Casualty Co.*, 935 N.E.2d 160, 170 (Ind. 2010) ("Implicit in the meaning of 'accident' is the lack of intentionality."); *American Family Mutual Insurance Co. v. American Girl, Inc.*, 2004 WI 2, ¶ 38, 268 Wis. 2d 16, 673 N.W.2d 65 (finding "accident" and therefore "occurrence" where "[n]either the cause nor the harm was intended, anticipated, or expected").

¶ 48 Applying this definition to the Association's complaint, it does not claim that the subcontractors *intentionally* performed substandard work that led to the water damage. Rather, taken in the light most favorable to M/I Homes, the allegations indicate that inadvertent construction defects accidentally caused property damage to the completed townhomes. Neither the cause of the harm—the inadvertent defects—nor the harm—the resulting water damage to the walls of the interior of the units—was intended, anticipated, or expected.

¶ 49 Acuity asserts that damage to any portion of the completed project caused by faulty workmanship categorically can never be caused by an accident because it is always the natural and probable risk of doing business. We disagree with that claim. We acknowledge Acuity's argument that ultimately the intent of CGL coverage is not to insure the cost to repair or replace defective work or to recover damages within the named insured's own scope of work. Nevertheless, as we discuss below, these notions of business risk articulated by Acuity are specifically expressed in the exclusion section of the policy as set forth below; they are not found in the language of the initial grant of coverage.

¶ 50 To hold that all construction defects that result in property damage to the completed project are always excluded would mean that the exclusions in the policy related to business risk become meaningless. As more fully explained below, the business risk exclusions contemplate that some construction defects that result in property damage are covered and some are not, depending on various factors written into the policy. To the extent that inadvertent construction defects that result in property damage are not covered, those limitations are effectuated by operation of the exclusions section of the policy.

¶ 51 To hold otherwise would be inconsistent with this court's pronouncement that all relevant provisions of an insurance policy are to be read together, rather than in isolation, and given

effect. *Valley Forge*, 223 Ill. 2d at 362. Accordingly, we hold that property damage that results from inadvertent faulty work can be caused by an "accident" and therefore constitute an "occurrence" for purposes of the initial grant of coverage under the insuring agreement.

¶ 52 Furthermore, we hold that the parties' premise—that there could be no "property damage" caused by an "occurrence" under the policy unless the underlying complaint alleged property damage to something beyond the townhome construction project—is erroneous; it is not grounded in the language of the initial grant of coverage in the insuring agreement. To the extent that prior appellate court cases relied upon considerations outside the scope of the insuring agreement's express language, that analysis, which is not tied to the language of the policy, should no longer be relied upon.

¶ 53 Yet, recognizing that the allegations here are sufficient to establish an initial grant of coverage is only the first step in determining whether these damages are afforded coverage under a CGL policy and, thus, whether there is a duty to defend. Coverage under the insurance agreement may be precluded by an exclusion.

¶ 54 2. *Exclusions and Exceptions*

¶ 55 a. Expected or Intended Injury

¶ 56 Turning to the exclusions, the policy initially provides that "[t]his insurance does not apply to: a. *** property damage expected or intended from the standpoint of the insured." The allegations expressly assert that the resulting property damage "was neither expected nor intended from [M/I Homes'] standpoint." Since there is no assertion that the resulting water damage was expected or intended by M/I Homes, this exception does not preclude a duty to defend.

¶ 57 b. Business Risks Including Damage to Property and Damage to Your Work

¶ 58 The policy contains several other exclusions including, but not limited to, exclusions (j) and (l), which potentially could apply to the underlying allegations in this case. These provisions invoke limitations to coverage specifically related to the cost to repair or replace faulty work. They also relate to the scope of the named insured's work and whether the property damage arises from the named insured's work while performing its operations or after those operations have been completed. There are also exceptions to those exclusions that may restore coverage in certain cases. Given that the parties focused on the initial grant of coverage, they did not address, and the trial and appellate court did not consider, the exclusions (j) or (l), their exceptions, or how any of those policy provisions apply to the underlying facts alleged in the Association's suit.

¶ 59 Exclusion (j) provides in paragraph (6) that "[t]his insurance does not apply to *** [p]roperty damage to: *** [t]hat particular part of any property that must be restored, repaired or replaced because your work was incorrectly performed on it." As provided at the outset of the policy, "the words 'you' and 'your' refer to the Named Insured shown in the Declarations, and any other person or organization qualifying as a Named Insured under this policy." Under this policy, the subcontractor H&R is the named insured.

¶ 60 However, exclusion (j) has an exception that would restore coverage. That provision states that "[p]aragraph (6) of this exclusion does not apply to property damage included in the

products-completed operations hazard." The "products-completed operation hazard" is defined to include "property damage occurring away from premises you own or rent and arising out of your product or your work" "when all of the work called for in your contract has been completed."

¶ 61 Also potentially relevant is exclusion (l), which excludes property damage to " 'your work' arising out of it or any part of it and included in the 'products-completed operations-hazard' " but then provides an exception that states that this "exclusion *does not apply* if the damaged work or the work out of which the damage arises was performed on your behalf by a subcontractor." (Emphasis added.)

¶ 62 Notably, the parties have not engaged how their status as named insured and additional insured impacts the analysis. Under this policy, M/I Homes is not the named insured but rather an additional insured under an endorsement to this policy. M/I Homes is an additional insured with respect to "liability included in the products-completed operations hazard arising out of [H&R's] work performed and subject to the contract or agreement" entered between M/I Homes and H&R.

¶ 63 We set these provisions out here merely to emphasize that these exclusions support our initial conclusion that a subcontractor's defective work that results in property damage to the completed project may be covered and that coverage is ultimately determined by operation of the various exclusions and exceptions. To ultimately resolve whether Acuity has a duty to defend, we think it best to remand to the trial court for further consideration. On remand, the parties will have an opportunity to address whether, comparing the underlying allegations to the language of the policy, the exclusions in the policy apply to preclude a duty to defend. Also, on remand, given the new legal framework, the trial court may address other remaining challenges, if any, including the Association's standing.

¶ 64 III. CONCLUSION

¶ 65 In sum, taking the allegations in the underlying complaint in the light most favorable to the insured, we hold that the allegations sufficiently fall within the initial grant of coverage requirement that there be "property damage" caused by an "occurrence." Thus, we affirm the judgment of the appellate court, which reversed the circuit court's grant of summary judgment in favor of Acuity, albeit on other grounds. However, we reverse that part of the appellate court judgment remanding to the circuit court to enter summary judgment in favor of M/I Homes. Instead, we remand to the circuit court for further consideration of whether the exclusions in the CGL policy bar coverage and thus the duty to defend and to address any other remaining challenges.

¶ 66 Appellate court judgment affirmed in part and reversed in part.

¶ 67 Circuit court judgment reversed and remanded.