2018 Market Outlook: Real Estate

Upcoming Market Changes will Require Disciplined, Strategic Approaches from Real Estate Firms

With the economy rolling along, the outlook for the real estate sector in 2018 remains positive. Cost of living increases, labor shortages, rising mortgage rates and increasing cost of materials are looming challenges.

Following last year's natural catastrophe events, property insurance carriers are deploying capacity more strategically across their portfolios, and in particular catastrophe-exposed regions.

Real estate companies will need to adopt a disciplined approach and a change in strategy in 2018 as the property insurance market hardens.

The following strategies are recommended:

- Request deductible options for various perils to determine the cost benefit of increased deductibles.
- Ensure the quality of each risk is communicated clearly to the market.
- Firms with losses or significant exposures will be well served by outlining risk mitigation plans and utilizing modeling, particularly for natural catastrophe exposures such as severe storms, flood, wildfire, and terrorism.

Key Points

- Market changes will require discipline, change in strategy
- Multi-strategy approach needed
- Tenant claims on the rise
- Engage carrier and broker

Multi-Family Properties

This segment of real estate has been hit especially hard by attritional losses including normal fire and water claims. As a result, upward rate and deductible pressure is expected for all frame habitations exposed to natural catastrophe including flood, wind and hail.

Tenant-related claims also are trending upward. These have evolved in areas pertaining to lease application denial, unlawful eviction, sexual harassment, and inadequate security following a crime, among others. Real estate owners and managers will need to improve and emphasize risk management programs and strategies in this area to stabilize liability pricing and tenant retention.

Commercial

Commercial real estate owners, specifically those with assets exposed to natural catastrophe, will need to differentiate their portfolio from others to be successful in creating capital efficiency in their insurance program. A simple solution is to engage both carrier and broker risk control to assess and communicate risk quality for both property and general liability exposures.

Acts of terrorism continue to lead the news almost daily. Most real estate companies have traditionally relied on the government backed program – TRIA – to provide coverage for physical damage to an owned asset. Many companies are seeing revenue streams impacted due to acts that incite fear but do not qualify under TRIA as a covered event. TRIA is limited by the government for both the response and event size. Therefore, relying on TRIA in light of recent events can be a risky strategy to manage terrorism exposure. Stand-alone coverage is available to provide coverage when TRIA falls short.

Owning, managing and developing assets, especially with multiple partners, can lead to sizeable real estate professional liability (PL) claims. These claims can manifest themselves in multiple areas, including tenant build-out disputes, other construction related activities, investment quality and returns, and damage to reputation. Acquiring broad protection with adequate PL coverage is paramount in defending and shielding a company from unwanted claims.

Key Points

- Standalone terrorism cover remains critical
- Restrictions on fire coverage
- 2018 Market Outlook

Fire

Fire claims involving frame apartment buildings are loss leaders for builders' risk carriers, impacting capacity and rates. The few markets left to write frame multi-family builders' risk have imposed higher deductibles and more importantly, reduced the limit they will provide for larger exposures.

Mitigation techniques include a detailed fire watch program, security guards, perimeter fences and surveillance cameras. Any or all of these can positively impact the pricing and capacity available for these risks.

What Insureds Can Do

It is recommended that clients be as proactive as possible so they can clearly articulate to carriers how their specific risk differs from other companies in the same industry. Pre-loss safety, loss control and post-loss claims handling strategies should be revisited and spelled out in market submissions. Clients and their brokers may also need to conduct their own analytics to best assess the risk/reward of their retention levels. The use of data analytics to assess frequency and severity of risks is becoming increasingly common and important. Insureds that present a good risk profile may be able to minimize rate increases.

For more information on how USI can help protect your business, contact a USI consultant.

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