2019 P&C Market Outlook: Commercial Real Estate Sector Overview

INSIGHTS FROM USI NATIONAL PRACTICE LEADERS

Commercial real estate companies continue to invest in new development and value-add opportunities throughout the United States. This is especially true for mixed-use urban locations catering to young professionals. Real estate transactions remain at high levels with no slow-down in sight.

Due to quality of life demands, a large part of real estate development is in geographic areas exposed to catastrophes such as flood, wildfire, severe storm, hurricane and earthquake. Insurance companies are re-thinking how to deploy capital to manage aggregations in CAT-exposed areas.

The Market Today and Capacity

Multi-Family Properties - This segment of real estate continues to experience the most significant insurance capacity challenges. Beyond the natural catastrophe losses in 2017 and 2018, multi-family portfolios are producing fire and water damage losses, causing some carriers to exit this risk class or increase rate and deductible even for low-loss level insureds. With overall segment capacity shrinking, insureds with exposures to natural catastrophe and below average loss history can expect significant rate increases.

In addition, liability claims involving tenant discrimination, wrongful eviction, and sexual harassment have been unrelenting. Real estate owners and managers will need to provide comprehensive information on risk controls and risk management strategies when placing coverage associated with these exposures.

Commercial - Real estate owners, developers and managers in the commercial space have a distinct advantage in the market: Quality risks remain the focus of carrier capacity offerings. Portfolios exposed to natural catastrophe need a disciplined approach to achieve an optimal outcome in the marketplace.

General Liability - Coverage in this space is driven by claim frequency and an insured's risk control approach to address potential exposures. Again, quality risks will receive preferential treatment in the insurance market.

Frame Construction - Due to the numerous large fire losses involving single, mixed-use buildings in recent years, frame construction projects are under increased underwriting scrutiny and face capacity challenges.

Wildfire - Carriers in past did not fully contemplate or price for wildfire exposures for properties located in the western part of the United States. The frequency and severity of recent wildfire events will likely change this behavior and lead to intense underwriting and rate and deductible increases.

Severe Storm - Tornado and large hail events are occurring more frequently with catastrophic results. Carriers offering capacity on assets exposed to storm damage are now carefully underwriting the risk and proposing increases to rates and deductibles in CAT-prone states.

Highlights

Cyber - Cyber criminals continue to target real estate companies, hacking into systems and networks to steal personally identifiable information or siphon funds from tenant's escrow accounts.

Tenant Lawsuits - Crimes against tenants are on the rise. Property owners and managers are under increased pressure to provide a safe premise for tenants. Insurance companies are reviewing all aspects and information related to tenant safety and security.

Real Estate Professional Liability - The current high level of real estate activity has led to an increase in claims for "mismanaged" transactions and developments. Real estate companies are advised to obtain coverages that address operational exposures.

Active Shooter - The business income impact from active shooter incidents can be significant. These events, which often generate lawsuits alleging inadequate security, can create significant financial liabilities for real estate owners and managers.

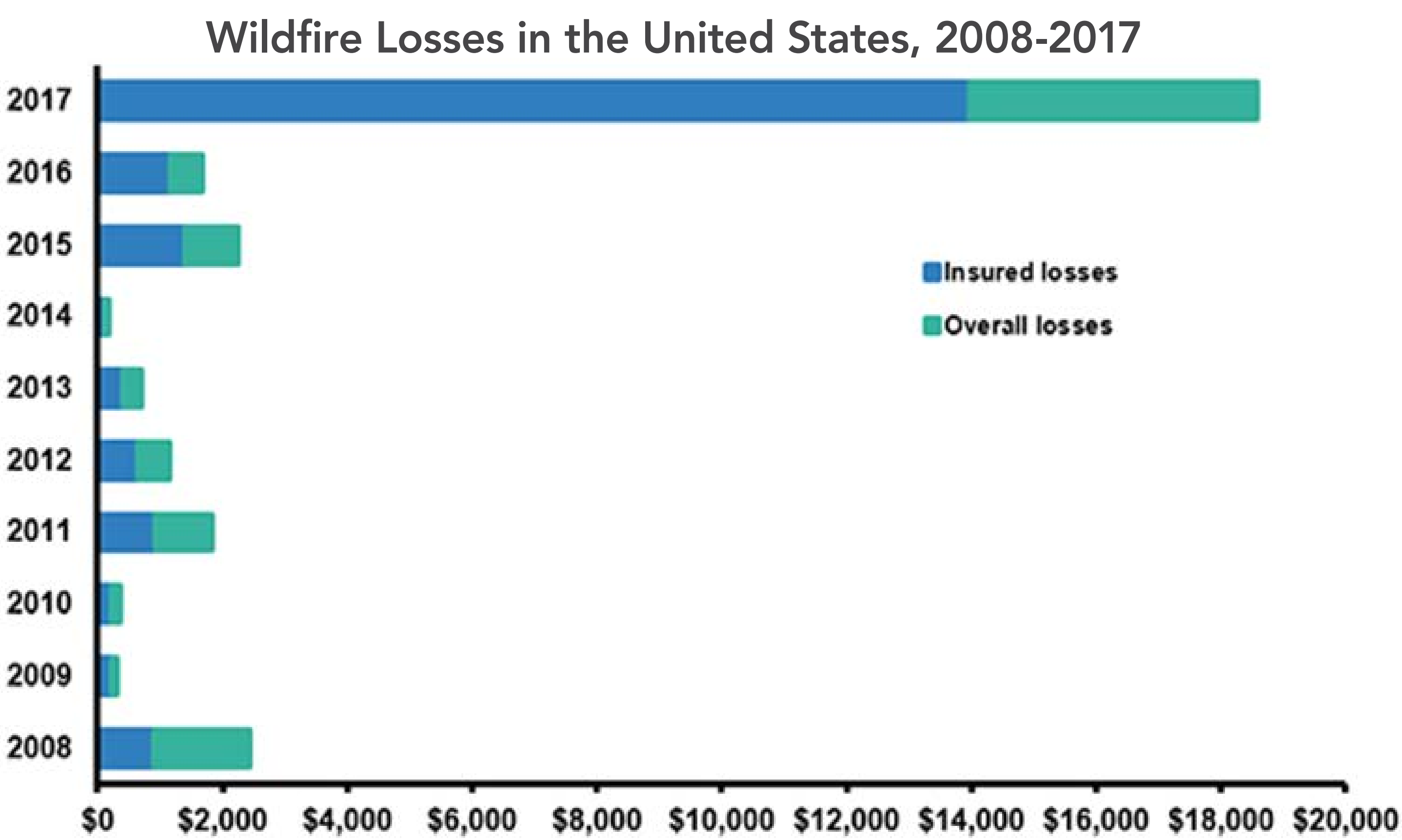
What Insureds Can Do

Insureds can achieve better results if they are able to present themselves as a quality risk. For instance, residing in a catastrophe-exposed location does not necessarily mean an insured is a bad risk. Differentiation is key here. Pre-loss preparation, post-loss mitigation strategies, inspection protocols, and capital expenditure details are all important strategies that should be implemented and clearly communicated to insurance carriers.

Real estate owners and managers can benefit from analytics to develop a better understanding of exposures and claim trends for property and casualty lines. Carriers use the same analytic tools to assess a prospective client in order to understand the frequency and severity of risks.

The following strategies are recommended:

- Start the renewal process early and explore multiple market strategies.
- Review the impact of various deductible options to determine the cost benefit of these alternative deductible structures.
- Understand limit needs with analytics and benchmarking
- Establish pre-loss protocols to maximize efficiency in the event of a claim.



Source: Munich Re

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