

REAL ESTATE INDUSTRY GUIDE

Real Estate Manager's Survival Guide in a Hard Insurance Market



Insurance Premiums on the Rise

Recent events have been unkind to the real estate industry's insurance rates — but that doesn't mean owners and operators should give up hope of getting coverage at an affordable rate.

Issues are stemming from capacity, or the total amount of insurance that underwriters are offering in the real estate business. Because of losses, insurance carriers have pulled back the amount of insurance they'll offer and have significantly raised rates as a result.

It's the very definition of what's known as a "hard market." The capacity issue is especially acute in catastrophe-prone areas, where real estate owners and operators need creative solutions to find insurance.

Several factors are causing the persistent hard market in real estate coverage:

- Insurers are reeling from catastrophe-related claims, particularly windstorm, hurricane and wildfire events.
- Inflation, supply chain challenges and outdated property valuations have caused rebuilding costs to rise beyond what insurers priced policies to cover.
- Reinsurance — the coverage that primary insurers must buy — has become expensive, and carriers are passing price increases to real estate owners and operators.

Insurers are insisting on updated property valuations before even considering whether to write a risk, and may decline coverage on poorly maintained properties or those that have too much exposure.

Real estate owners and operators can expect rate increases ranging anywhere from 10% to 50% at renewal. In catastrophe-prone areas, rate increases could be as much as 200%.

But real estate owners and operators that have well-maintained properties and who are prepared for catastrophes will have an advantage. Rates may start to ease over the next 18 months as new players enter the market and provide rate relief.

We see the formula is relatively straightforward: Undertaking preventative maintenance, considering alternative insurance options and partnering with the right insurance broker will help reduce premiums over the long term.

What is a hard insurance market?

It's an insurance industry market cycle that occurs when insurance companies impose tougher underwriting standards and reduce the amount of coverage they are willing to underwrite, causing supply to contract and premiums to rise. Several factors, including increasing frequency and severity of claims, can lead to a hard market.

Don't despair. There are many ways real estate owners and operators can get ahead of rising premiums.

Safety First: Keep Your House in Order

Despite the hard market, real estate owners and operators still have the ability to control and manage losses. Owners and operators who control their risks in-house will be in a better position to find coverage at an acceptable rate.

Proven strategies include:

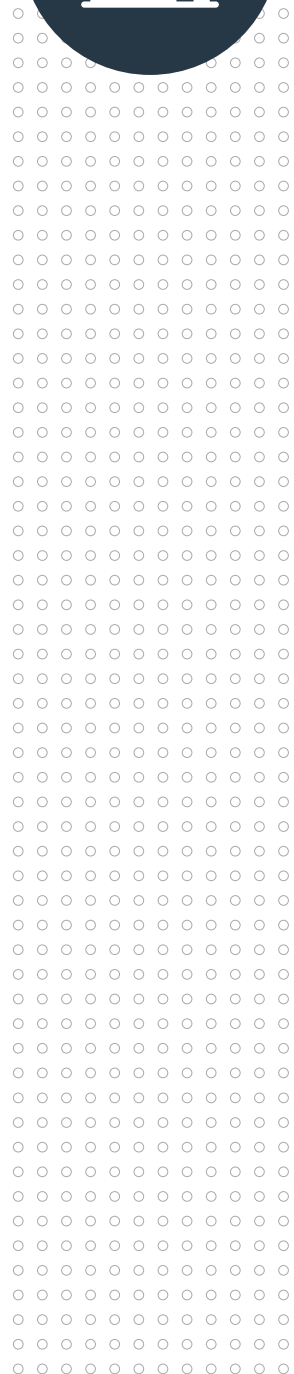
Preventative maintenance. Regular preventative maintenance improves building safety and can reduce the likelihood of claims. Test fire pumps monthly, fix broken handrails immediately and replace old electrical panels.

Implement water damage mitigation plans. Losses from water damage are the most common cause of insurance claims in real estate. It's essential to have water damage prevention and mitigation plans, which include installing shut-off valves, understanding how to isolate water leaks, ensuring functional sewer lines and sump pumps, and scheduled inspection and maintenance of the plumbing system itself.

Emergency planning. Every property in a portfolio should have an "all hazards" emergency plan that applies to possible crisis scenarios including fire, earthquake, flood, windstorm, workplace violence, terrorism and other location-specific risks. You should also identify ways to mobilize building occupants in the event of an emergency and emphasize communicating the emergency plan to building occupants.

Enhanced safety and security. Property managers and owners should develop a comprehensive safety and audit program to ensure the physical safety of building occupants. The plan should include employee training on identifying hazards or risks before they cause losses. It should also ensure building security with cameras, access control or with a third-party security team where needed. Common areas like parking lots or high traffic spaces should be kept clear of objects that could cause slip and fall claims.

Vet all contractors. All vendors should provide a certificate of insurance before performing work. Review the vendor's insurance policy with your broker to ensure there are no exclusions to prohibit them from assuming risk when working on your property. The property owner should also request to be added as an additional insured to their policy.



CASE STUDY

CAT Modeling Becomes a Design for Insurance Savings

CHALLENGE

A real estate operation with more than 200 locations in the U.S. and Canada was operating with incomplete information: The company did not know its true exposure to catastrophes. Because it was unaware of its CAT exposure, the real estate company was paying for insurance with a high loss limit, which was possibly excessive and added to costs.



SOLUTION

The company engaged HUB to conduct a detailed study that would measure its catastrophe exposure for all its properties across North America. The study revealed that its main concern — damage from earthquakes — was not its biggest issue. Properties in Texas had exposure to hurricanes and were of greater concern than earthquakes across the portfolio.



RESULTS

HUB's report showed that the company's loss limit was likely to be too high. As a result, the organization reduced its loss limit by \$100 million, providing significant savings for the organization. In addition, HUB was able to identify significant exposures that affected the company's long-term acquisition strategy.



Consider Different Insurance Options

Due to the hard market, real estate owners and operators may need to consider new ways of structuring their insurance. A specialized real estate insurance broker can help explore non-traditional insurance opportunities to secure affordable coverage that still protects your business assets.

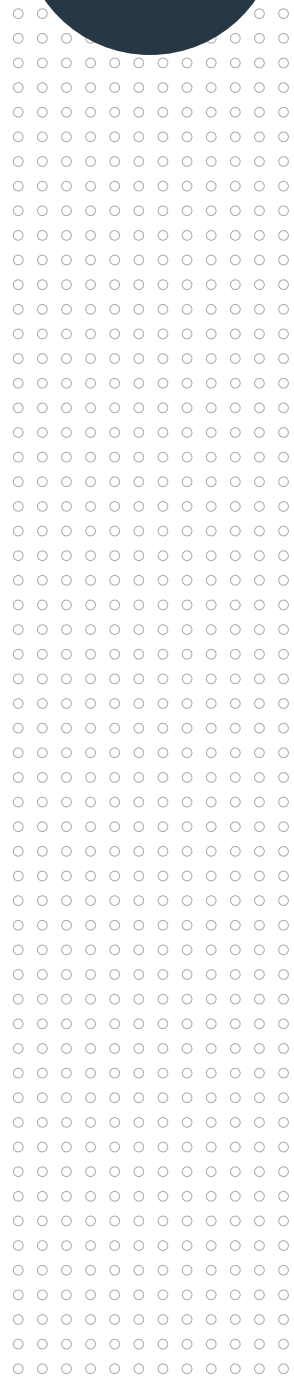
Assume more risk. Increasing deductibles can reduce policy premiums. With a high deductible, the business assumes initial losses and claims up to a certain threshold, but the insurer still takes on most of the risk. For businesses with a solid risk management program, increasing the deductible can be a good option and could provide more capacity choices. Insurers are more likely to offer coverage if they know the insured is responsibly managing their risk.

Layer or bifurcate coverage. This option is ideal for mixed-use facilities that are over 30% habitational with retail or hospitality elements. This type of policy is split between two carriers based on the risks of each facility, and premium costs can either be reduced or limits increased. If the limits are reduced, single-use or enterprise properties can obtain multiple policies to reach the total policy limits needed. This type of layered coverage is becoming common for high-limit policies.

Consider a Risk Purchasing Group (RPG) or Captive. Captives are a group of businesses with similar risks that pool their resources to purchase liability insurance. Captives, including RPGs, work well for businesses with minimal risk and can help with managing insurance costs. Captive managers who specialize in real estate can optimize the captive structure and establish risk management resources to minimize losses.

Self-insure. For businesses with significant financial assets and a strong risk management program, retaining the risk in-house by self-insuring can help reduce premium costs. Another option is to self-insure excess policy layers so you can allocate more towards the primary policy.

Check for vacancy clause. Properties left vacant for 30 to 60 days can be subject to a policy's "vacancy clause," which modifies coverage from replacement cost to actual cash value and deletes the vandalism coverage or eliminates any property damage coverage. Triple Net Lease properties are most affected by this. Review with your broker to determine if there is a distinction between "vacant" and "unoccupied" and what it might mean for an individual property and portfolio.



CASE STUDY

Turning a Safety Issue Into an Opportunity

CHALLENGE

A warehouse served as a distribution center for polystyrene blocks, a highly flammable material used in thermal insulation. When the insurer visited the warehouse, it determined that the facility's sprinkler system was inadequate. The insurer demanded an upgrade of the sprinklers — an upgrade that would cost as much as \$300,000.



SOLUTION

HUB came in and made a key finding: The insurer had used incorrect information in determining the sprinkler system needed an overhaul. Instead, HUB found that the hydraulic plates for the system were labeled incorrectly and should be upgraded at minimal cost.



RESULTS

The conclusions, supported by an independent engineering firm, convinced the insurance carrier that there was no need for a major upgrade of the warehouse's sprinklers. The client saved hundreds of thousands of dollars because of HUB's work.



Partner with a Broker Who Knows Your Business



You don't have time to become an insurance expert and monitor the market's ups and downs. That's why you need a good insurance broker. They should be a real estate industry specialist, helping you plan for renewals and advocating for you with insurance companies. Here are some recommendations from HUB on how to choose and work with an insurance broker:

Meet with your broker regularly. Begin planning for your next renewal at least 120 days in advance. Check in with your broker regularly to review your losses throughout the year, especially in the four months leading up to your renewal. Understanding losses will put you in a better position to negotiate renewals.

Create a relationship with your insurance carrier. A good insurance broker serves as an intermediary, fostering long-term relationships between clients and insurance companies. The better an insurance carrier knows you, the less likely they will overreact to negative news. Churning insurance carriers long-term will increase pricing. Develop a strategy with your broker to know when and how often to test insurance markets.

Know your numbers and tell your story. Because insurance underwriters eventually learn about losses and safety performance, be upfront with carriers about the strengths and weaknesses of your portfolio. Let them know how you're preventing future losses. Understand the root causes of large losses and loss trends and share that information with the carrier. For example, if slip and fall injuries are common across your properties, be prepared to talk about how you're preventing them in the future.

Report losses quickly. Manage the claims process for all claims, no matter the type or size. Report all claims quickly with good documentation. When applicable, share video footage of the damage and actual crime with your carrier. Clean up any damage and board up your storefront, if necessary. Stay in constant contact with your insurance company and broker to improve outcomes. The goal is to ensure that claims are resolved as quickly as possible at the lowest possible cost to you.



CHECKLIST

Choosing the Right Insurance Broker

You want advice from people who understand your business and industry. Before choosing an insurance broker, be sure to ask these important questions:

- How long has the broker been involved in the real estate industry?**
The real estate business is risky enough. You don't want to be a broker's first real estate client.

- What percentage of the broker's clients are similar to me?**
Look for a broker who specializes in your industry. They should know the pertinent trends and issues in real estate that will affect your business.

- How many insurance carriers can the broker bring to the table?**
Not all brokers have access to specialty insurance companies who serve the real estate/property market. It's important to align with a brokerage firm in good standing with carriers and that has the best chance of securing optimal coverage and pricing.

- In addition to property insurance, what expertise and services does the broker offer?**
A broker should make introductions to certified risk managers with knowledge of your industry, help address safety issues and advise on technology solutions for your business.

- Can the broker review contracts and advise on risk exposures?**
Experienced brokers will review insurance clauses in all contracts and advise where to make changes. They should have connections with attorneys who know your business and can review any other business contracts for liability.

- Does the broker's team have adequate claims experience?**
When a claim is filed, both the broker and account management team should be committed to advocating for you with the insurance carrier.

- What other services or expertise can the broker offer?**
Ask to be introduced to the broker's counterparts in employee benefits consulting. There are multiple ways to support the needs of the workforce. A specialist can help advise you on these important benefits.

Real estate owners, developers or operators need an insurance broker who can handle all needs in a seamless manner and avoid gaps in coverage. Working with a single brokerage firm with knowledge and experience in both U.S. and Canada reduces risk and administrative workloads.

Strategic support that puts you in control

When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. With HUB, you have peace of mind that what matters most to you will be protected — through unrelenting advocacy and tailored solutions that put you in control.

For more information on how to manage your insurance costs, reduce your risk and take care of your residents and employees, contact a HUB real estate insurance specialist.

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