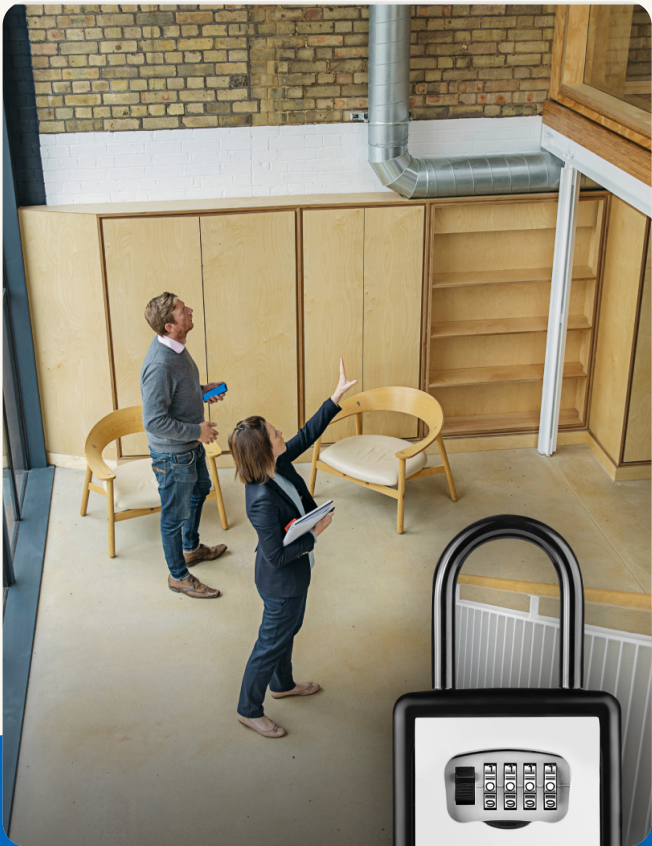


HUB 2023

Outlook.

Real Estate



In a troubled market, risk management will help real estate operations thrive.



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Setting the Scene

The cost of everything will rise

Higher interest rates and inflation will affect the cost of borrowing, construction, maintenance and insurance. At the same time, costlier natural disasters — such as the derecho that hit Ontario and Quebec last May — and remote work becoming permanent will transform how investors value their real estate holdings.



13.8%

The vacancy rate for downtown office buildings nationwide in September 2022.¹

1. Collier's Canada, [National Market Snapshot](#), September 28, 2022.

What to Expect in 2023

Inflation reached a 39-year high in 2022,² driving up interest rates, which will remain high and possibly increase in 2023.³ Rising construction costs, as well as more frequent and extensive property claims, will exacerbate market challenges and weaken profits. Real estate owners and operators who understand their risks and embrace creative market solutions will have better coverage options at lower costs.

2. CBC, "[Inflation rises again, to new 39-year high of 8.1](#)," July 20, 2022.

3. CTV News, "[Bank of Canada hikes interest rate again, predicts potential recession in 2023](#)," October 26, 2022.



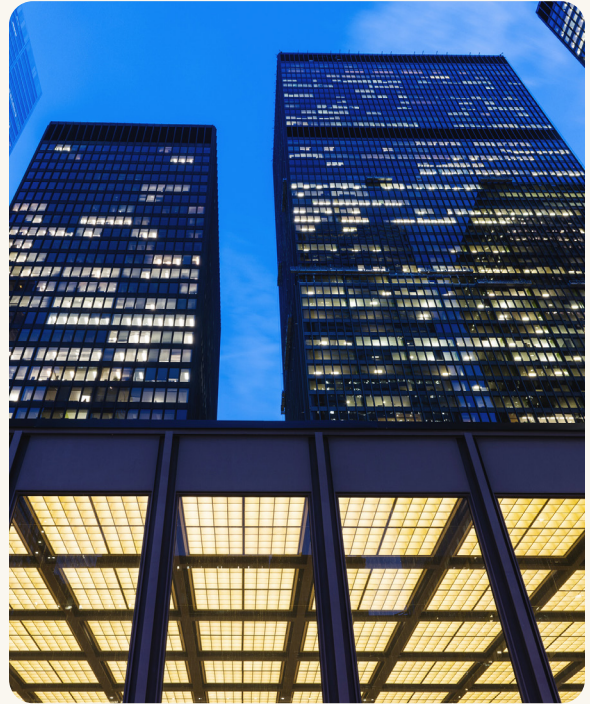
Real estate investors will see lower profits, with interest.

Several years of high rebuilding costs and outdated property valuations, rising crime, chronic inflation and high interest rates will continue to hurt real estate profits.

Climbing interest rates have made loans and mortgages more expensive; rates are likely to stay high and increase in 2023. Real estate owners and operators will need to plan for further rate hikes and continued high inflation, which will make it more difficult for their commercial and residential lessors to make rent.

The shift to remote work will continue to pressure commercial real estate profits. Downtown Toronto office occupancy remained below 30% in September 2022, and the national vacancy rate for office buildings stands at just 13.8% in the third quarter 2022.

In both the U.S. and Canada, pension funds have pulled back on office building investments, with private real estate holdings in offices falling 11% in 2021 compared with the three years prior. Holdings in the retail space fell 7% over the same period.⁴



These factors will make an already onerous insurance market even more difficult in 2023, with carriers pulling back on capacity and significantly increasing insurance rates, further squeezing profits.

4. [Wall Street Journal, "Pension Funds Are Selling Their Office Buildings,"](#) August 25, 2022.



Shrinking workforce, shrinking revenue.

Real estate companies are struggling to find capable employees. In today's era of remote work, half of commercial real estate companies say geographic challenges have become the top issue in hiring.⁵

The labour shortage is also affecting real estate indirectly. Construction companies are facing delays because they can't find enough workers. Most real estate operations hire vendors to handle maintenance, security and cleaning services, but they're having trouble with staffing as well.

Those vendors and construction companies are raising wages to attract and retain workers, with costs likely to be passed on to real estate owners and operators.

Just as troubling: The labour shortage is affecting renters' ability to hire workers, and the rising minimum wage⁶ could add to the financial burden. In the worst of the COVID-19 pandemic, lessors were going out of business or not paying rent, but today they may not be able to find enough workers to stay viable or expand, resulting in less rental income for owners.

As remote work flourishes, finding workers to come into the office is the top hiring issue in commercial real estate.

Although real estate owners and operators can do little for the overall labour shortage, they can improve their own recruiting and retention through personalized benefits based on data analytics. Doing so will improve employee engagement and worker loyalty.

5. Northspyre, "[Commercial Real Estate's Most Critical Issue: A Labor Shortage](#)," September 1, 2022.

6. CRE, "[Labor Shortage Strain: Where Have All the Workers Gone?](#)" August 17, 2022.



Rising claims and insurance rates threaten resiliency.

In addition to the financial and economic conditions threatening their business model, real estate owners and operators will face a difficult insurance market.

Commercial property-casualty insurance is projected to increase 5% to 10% for properties not in catastrophe-prone geographies. The rise will be due to carriers' increased scrutiny of insurance-to-value, rising construction costs and supply chain disruptions. Expect coverage for habitational and multifamily properties to rise the same amount, although rates of properties with catastrophe risks will see much higher increases.

There is good news for top properties with lower risk profiles. For instance, underwriters are still offering coverage for fire-resistant Class A high-rise office buildings. As insurers are competing for this business, best-in-class risks will find good coverage options at good rates.

Carriers are more likely to insure properties where the owners or operators are actively working to prevent damage or



liability claims. Underwriters will favour best-in-class properties and will require current building valuations before even considering risks.

Also, properties valued at less than \$100 per square foot will have difficulty getting coverage. Higher values will cost more to insure, but underwriters will decline to quote properties that are incorrectly valued.

To get preferred rates, real estate owners and operators will need to show detailed data on renovations and maintenance, such as new roofing, electrical systems and plumbing. Otherwise, insurers will assume that buildings have no renovations and will price insurance accordingly.



Weather disasters will take a bite out of real estate.

Catastrophes will also weigh heavily on insurers' minds, with global catastrophe losses in 2021 totalling US\$105 billion and estimated insured losses reaching US\$35 billion in the first half of 2022 alone.⁷

And that does not account for Hurricane Fiona, which slammed into the Atlantic Coast in September 2022 and caused an estimated \$660 million in insured damage and an unknown amount of uninsured damage from wind, storm surges, flooding and widespread power outages.⁸

Natural catastrophes were the second-leading cause of business insurance losses globally from 2017 to 2021, with a total value of more than US\$14 billion.⁹

Coverage for catastrophic perils in Canada will rise 10% in low-hazard areas, while in high-hazard areas, rates could increase 20% to 50%. Investing in stronger building materials that can withstand geographical hazards while ensuring properties are consistently and properly maintained will be crucial to reduce risks.



If a property does suffer a loss, underwriters are more likely to consider coverage if they have been rebuilt with proven construction materials to mitigate against future losses.

Parametric insurance also may be available in areas where property insurance capacity is scarce. Parametric policies pay out a set amount based on the magnitude of the event, even if there is no loss for the insured.

7. Swiss Re Institute, "[Floods and storms drive global insured catastrophe losses of USD 38 billion in first half of 2022, Swiss Re Institute estimates,](#)" August 2, 2022.
8. Cision, "[Hurricane Fiona causes \\$660 million in insured damage,](#)" October 19, 2022.
9. Allianz, "[Fire, natural catastrophes and faulty workmanship top causes of insurance claims for business: Allianz,](#)" July 19, 2022



Make a plan

HUB real estate specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce and build resiliency for 2023. Here are some initial considerations:



Lean into risk.

Higher interest rates and increasing catastrophes have driven up risk for real estate owners and investors. A higher deductible reduces premiums and improves experience rating. Ask your HUB broker about what kind of deductible meets your risk profile and budget.



Make safety a tenet of the organization.

Litigation against real estate companies is rising. But with extra training and risk management practices for all properties, you can guard against litigation risk and get better insurance options at lower rates. A little prevention can save millions.



Analyze loss trends.

Understand the root causes of large losses and explain to carriers what you're doing to prevent future claims. Develop a strategy with HUB to determine the best time and frequency to review alternative markets.



Improve construction and properly value replacement costs.

Whether it's rebuilding or new construction, it's important to use materials and construction techniques that will minimize losses later. Also, check with an appraiser for current replacement costs and submit correct loss of rents for business interruption values to save on premiums.



Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for Canada.

On the next page is our outlook on insurance rates in Canada for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



Rate Outlook — Canada

Coverage	2023 Canadian Rate Outlook	Insights
Automobile	↑ 5%	<p>Automobile rates in Canada will slightly increase. Fleets may expect to see more aggressive pricing by new entrants to the marketplace.</p> <p>Quebec policyholders may see more favourable rates and better terms.</p> <p>Rates for policyholders in provinces with public auto will remain mostly flat.</p>
Liability	↑ 5% to 10%	<p>Policyholders could see increases of up to 10% in general liability depending on class and loss experience. Companies with good loss experience may see rate reductions.</p> <p>An increasingly competitive medical malpractice marketplace has driven down rates: Policyholders are likely to see flat rates or small drops.</p>
STRATA/Condo	↑ 5% to 10%	<p>Property valuations are rising 7% to 10%, and although insurance rates remain relatively flat, the increasing valuations may lead to rate hikes of 5% or more to account for rising claims costs.</p> <p>Capacity has historically been limited, but more competition is entering the marketplace. However, this may be short lived with the market for catastrophe reinsurance hardening.</p> <p>Quebec policyholders will see rate increases of 5% to 10% as capacity remains limited.</p>
Umbrella & Excess Liability	↑ 5% or higher	<p>Rates will increase 5% or more depending on class and loss experience. Best-in-class policyholders will see flat renewals or slight rate upticks based on increased exposure.</p>
Property	↑ 10% or higher	<p>Best-in-class insureds will have more modest increases, with escalating competition for new business commercial property (Class A & B).</p> <p>Quebec insureds will see 5% increases but can expect better terms.</p> <p>Insurers are focused on insurance to value with rising inflation; clients will experience higher premiums due to an increase in building values.</p>
Directors & Officers	↑ 5% to 10%	<p>Rates will depend on the strength of an insured's financials and industry outlook. Clients that restructure placement may be able to secure premium reductions.</p> <p>Quebec insureds will see rates of 15% or higher due to legal defense cost payouts.</p> <p>D&O coverage will be challenging for healthcare and particularly long-term care. Insureds in those sectors can expect rate increases of 10% to 20%.</p>
Cyber Liability	↑ 10% or higher	<p>Rates will increase from 10% to 200% based on cyber controls, loss history and industry.</p> <p>Healthcare will see rate increases for cyber coverage of 200% to 300% as carriers reduce capacity.</p>
Environmental	↑ 5% to 10%	<p>Capacity restrictions for certain risks and increasing claim severity remain a challenge.</p>
Inland Marine	↑ 5% to 10%	<p>Rising accident frequency and severity will prompt continued rate increases in this sector.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Agribusiness	↑ 5% to 10%	Regional mutual insurers are the primary providers in agribusiness. Livestock will see rates rise 10% to 15% at renewal due to decreased capacity and market appetite.
Cannabis	↑ Flat to 5%	<p>For the past four years, rates in this emerging market have been high primarily due to lack of capacity, but in 2023 further rate increases will be minimal.</p> <p>D&O and cyber will remain challenging, with limited capacity due to few carriers writing business in this industry. Although competition in the D&O market is increasing, expect rate increases of 10%, depending on the insured's financial health.</p> <p>Property and liability rates will rise 5% to 10% due to rising construction costs.</p>
Construction	↑ 5% to 10%	<p>Supply chain delays, labour shortages and rising inflation will continue to drive construction costs up for both commercial and residential projects. Rates will rise about 5% depending on risk, largely due to higher property valuations affecting premiums.</p> <p>The lack of skilled workers is likely to result in higher liability rates.</p>
Entertainment	↑ 5%	<p>The industry is facing reduced coverage, increased deductibles and limited coverage options, with rates rising 5% to 10% in 2023. However, rates are beginning to stabilize.</p> <p>In auto (touring), higher levels of claim frequency and severity have resulted in decreased carrier appetite.</p> <p>Larger venues may struggle to find sufficient coverage.</p>
Financial Institutions	↑ 5% to 10%	<p>Rates for general partnership liability coverage will increase 5% to 10%. Portfolio company private D&O renewals will likely have flat to 10% rate increases, although insureds that agree to increase retentions may see rate decreases. Financial institutions with significant long-term debt may see increases at renewals of 20% or higher.</p> <p>Cyber rates will continue their ascent and insureds can expect premium increases of 20% to 40%, although some institutions could see rates rise as much as 300%.</p>
Healthcare	↑ 10% to 20%	<p>Until we see the impact of increasing interest rates, inflation will drive up the cost of premiums. The trend toward adding components of private healthcare will continue to change the healthcare landscape in Ontario, and other provinces may follow.</p> <p>A softening market in senior care will keep property rates flat for that sector. However, inflation will continue to drive up building valuations, increasing costs.</p>
Hospitality	↑ 10% to 20%	<p>Rising building valuations — up 10% compared with the prior year — may continue.</p> <p>Protected property risks will see rates rise 5% while challenged properties can expect rate increases of 10% or greater. The double-digit rate increases in liability in recent years have waned, mostly due to increased risk management protocols by insureds.</p> <p>Capacity for liquor liability continues to be challenging.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Nonprofit	↑ 10% to 20%	Supply chain delays, reduced government funding, labour shortages and a potential recession will challenge nonprofit organizations. The availability of liquor liability coverage for hosting private and public events remains limited. Rates for umbrella and cyber coverage are likely to increase in excess of 30%.
	↑ 5% to 10%	All insureds will face increased underwriting scrutiny on insurance to value. Premium costs are increasing due to rising construction costs and supply chain delays. With fewer carriers competing for business, some insureds will need to evaluate their total insurance budget and limits purchased. Best-in-class properties with sound business continuity plans will move to the top of the underwriting pile.
Real Estate	↑ Flat to +10%	Residential and Multifamily: Best-in-class residential realty will find increased capacity in the market and may obtain rate reductions, but underwriters remain disciplined in this industry. Overall premiums are up as insurance to value and reconstruction costs have increased.
	↓ Flat to -5% Best-in-class	Commercial real estate: More insurers have entered this space, and best-in-class-properties can expect rate reductions. Older properties, catastrophe-exposed properties and insureds with poor loss experience can expect high levels of underwriter scrutiny. Deductibles for flood and earthquake exposures will rise to limit carrier exposure. In Manitoba and Saskatchewan, rates for framed realty will rise 10% to 15%, with inflation potentially pushing premiums higher.
Sports	↑ 10% to 20%	Capacity remains limited in the industry. With few new entrants to the marketplace, rates will continue to rise.
Transportation	↑ 5% to 10%	The market is more stable than in the past few years, and best-in-class insureds will see better terms and conditions. However, insurer interest in the trucking segment remains limited across the provinces. Umbrella coverage will remain challenging, particularly for transportation companies with exposure in the US. Auto dealerships will continue to struggle for coverage, with rates rising 15% or more in 2023.

NOTE: Rate is typically defined as the amount of money necessary to cover losses, expenses and provide an insurance company with a profit for a unit of exposure. **Exposure** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

HUB Real Estate

When you partner with us, you're at the centre of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB real estate insurance specialist.

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