

 **Outlook.**

Real Estate

There's opportunity in risk management for savvy
real estate owners and investors.



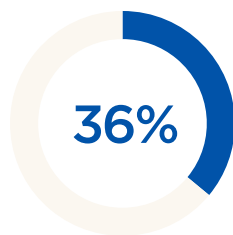
Risk & Insurance | Employee Benefits | Retirement & Private Wealth



What to Expect in 2024

High interest rates and weather-related disasters will continue to have a significant effect on the real estate industry in 2024.

Catastrophes and weather events, crime and supply chain issues will evolve, straining profits and resulting in higher insurance rates. Demand has shifted, with less for office space and more for habitational and warehouse space. At the same time, ever-increasing business costs, including insurance, will take a toll on profits.




Amount of Canadian real estate executives who say they're prepared for climate change and weather disasters in 2024.¹

1. Results from HUB's Outlook Executive Survey, which polled 900 C-Suite and VP-level executives on the issues facing them on profitability, employee vitality and organizational resilience.

Rising vacancy rates and insurance premiums threaten profits.

Commercial real estate profits in 2024 will depend on geography, sector and the general economy. Elevated inflation and interest rates are likely to continue, affecting investor confidence in borrowing to buy and build. And leases post-COVID-19 will be renegotiated, downsized or not renewed.

While market indicators suggest that interest rates will remain stable, there's no evidence that they will decline soon.² More than six out of 10 Canadian real estate respondents to HUB International's Outlook Executive Survey say that economic challenges and unpredictability constitute a threat to profits in 2024.



Vacancy rates for office space hit **18%** in mid-2023.

That fear is already playing out. Vacancy rates for office space hit 18% in mid-2023. The industrial sector remains a bright spot in commercial real estate, with rent increasing 19.3% year over year, thanks to growth in e-commerce and manufacturing.³

The industrial sector remains a bright spot in commercial real estate, **with rent increasing**

19.3%
year over year.



However, there's a marked difference between thriving local areas, like Hamilton and Winnipeg, versus overpriced markets such as Toronto and Vancouver. Not only is there a gap in vacancy rates and new building starts for commercial space between such geographies, but we've seen operators compete to buy and improve Class A office space in hot markets, showing faith in their long-term profitability.

Insurance costs represent a looming threat to profits. Premiums have risen across the board, even for owners and operators with strong risk management and few claims. As reconstruction costs have increased due to higher labour and materials prices, so have premiums. In catastrophe-prone regions, real estate investors will continue to see increase pressure on rates (but to a lesser degree than in previous years).

Those factors mean owners and operators must improve their risk management strategies and insurance coverages to stay profitable. Yet only one-fifth of Canadian real estate respondents to HUB's survey say they have enough insurance to cover their profit margins, and even fewer (16%) have a "significant loss prevention program" that includes engineering reviews and formal responses to engineering recommendations.

2. BNN Bloomberg, "[Bank of Canada Seen Keeping Rates Steady as Growth Picks Up](#)," September 26, 2023.

3. CBRE, "[Canada Industrial Figures Q2 2023](#)," July 4, 2023.

Personalized benefits will help solve recruiting and retention woes in real estate.

Attracting and retaining employees to manage or maintain properties will remain a challenge in 2024, as workers pursue higher-paying jobs with more flexibility and growth opportunities. The labour shortage will also hit property owners indirectly: As retail and hospitality businesses struggle to find workers, they may not be able to generate enough business to pay rent.

Of Canadian real estate respondents to HUB's 2024 Outlook Executive Survey, only



36% offer personalized benefits

20% offer lifestyle and alternative insurance options

Almost one-quarter of Canadian workers changed jobs in 2022, with many seeking better work-life balance and flexibility, increased compensation and a strong company culture.⁴ While the turmoil in labour markets has improved somewhat in 2023, turnover remains a significant challenge, with half of Canadian employees planning to look for a job in the first half of 2024.⁵

Failing to fully staff property maintenance positions⁶ can degrade properties and result in greater exposure to expensive claims and litigation. Having a strong workforce is essential to creating a culture of safety, controlling insurance costs and protecting profits.



Property owners and operators can boost recruitment and retention through personalized benefits informed by data and analytics. This strategy can deliver **quality employee experiences (QEX)** that create an environment in which employees are more engaged and productive than those without personalized benefits.

It's an area in which the industry has room for improvement: Of Canadian real estate respondents to HUB's 2024 Outlook Executive Survey, only 36% offer personalized benefits, and just 20% offer lifestyle and alternative insurance options to employees. This also represents a major opportunity for real estate companies to generate a competitive advantage through personalized benefits, such as offering specialty insurance or policies that support extended personal leave to support employee wellbeing.

4. Financial Post, "[Posthaste: Almost a quarter of Canadians changed jobs amid the 'Great Resignation'](#)," July 29, 2022.
5. Robert Half, "[Half of Canadian Workers Plan to Look for a New Position in the New Year](#)," accessed October 5, 2023.
6. National Apartment Association, "[The Big Quit: Retaining and Attracting Talent Post-Pandemic](#)," August 1, 2022.

For owners and operators, staying resilient will require the right plan and coverage.



More frequent and severe weather events like hurricanes and wildfires⁷, litigation and higher property values that increase replacement costs will continue to pressure rates, particularly in catastrophe-prone areas.

Generally, the real estate industry should expect property insurance rates to be stable, with premium hikes largely due to increased valuations. There may be rate reductions for best-in-class properties with good claim histories, but properties with significant losses or in catastrophe zones are unlikely to see any relief and may see much higher rates due to limited capacity for such risks.

These increases come on top of rate increases the last five to seven years. Not only are rates increasing, but some investors might find it cost-prohibitive to offload their risk. And property insurance capacity is scarce in areas where real estate owners need it most.

Expect some provinces to respond to insurance capacity challenges through legislation and by beefing up building codes to ensure properties can withstand catastrophes. Also, alternative risk transfer vehicles like **tenant default captives**, spot captives, deductible aggregates and contingent capital arrangements can help owners and operators cope with rising rates.

Catastrophe (CAT) modeling is also becoming essential in real estate resiliency.

Case study:

One of HUB's large real estate clients leveraged CAT modeling to show that the company was paying too much for the wrong risks. As a result, the organization reduced its loss limit by USD \$100 million, providing significant savings with an acceptable level of risk. In addition, the company identified significant exposures that affected the company's long-term acquisition strategy.

7. The Vancouver Sun, "[Extreme weather risk changing Canada's insurance industry, raising costs](#)," August 4, 2023.

Minding the (risk) gap will enable success in 2024.

Premiums are up, and insurers are facing enormous losses from severe weather events.⁸ In addition, the real estate industry will continue to grapple with supply chain woes and the cost of business interruption, as many office and retail spaces still stand empty post-pandemic.

In this environment, improved risk management will be mandatory in 2024 — not only to secure affordable insurance, but to help secure real estate businesses' long-term economic futures.

At the most fundamental level, property owners need to make buildings safer, smarter and more resilient to severe weather in 2024. This is particularly true for entities that want to keep insurance costs down through self-insurance or those that take higher deductibles.

Real estate owners and operators should prepare to prevent events that lead to property losses, crime or people suffering injuries on their properties. Proper maintenance and site security are essential, baseline risk management measures for any real estate owner.

In addition, multifactor authentication (MFA) protocols and endpoint detection and recovery (EDR) will reduce the risks of cybercrime. And by helping renters secure their supply chains and implement business interruption plans, owners and operators can minimize the threat of lost rents because tenants can't operate their businesses.

Insurance can't always patch all the holes to keep a ship from sinking, but only

12%

of Canadian real estate respondents to HUB's Outlook Executive Survey have an effective risk mitigation strategy.

Sometimes, events lead to losses so extreme that insurance can't patch all the holes to keep a ship from sinking. Yet just 12% of Canadian real estate entities have an effective risk mitigation strategy, while only 28% align risk mitigation strategies with organizational goals, according to HUB's Outlook Executive Survey, which points to gaps in preparedness.

It's a telling result indicating that while many organizations may think they are prepared for worst-case scenarios, many aren't taking the steps to ensure they're ready when catastrophe hits.

8. Insurance Bureau of Canada, "[Severe Weather in 2022 Caused \\$3.1 Billion in Insured Damage — making it the 3rd Worst Year for Insured Damage in Canadian History.](#)" January 18, 2023.

Make a plan

HUB real estate insurance, risk management and employee benefits specialists will work with you to develop a tailored strategy that will protect the bottom line, support the vitality of your workforce and build resiliency for 2024. Here are some initial considerations:



Thoughtfully lean into risk.

High interest rates and a greater number and intensity of catastrophes have increased risk for real estate owners and investors. A higher deductible reduces premiums and improves experience rating, while alternative risk transfer vehicles can lower costs. Discuss with your broker what kind of insurance strategy meets your risk profile and budget.



Make safety a tenet of the organization.

All buildings – both older and newer – come with risks. Start with regular building maintenance. Make safety a foundation of the organization, with extra training and risk management practices like increased security for all properties. A focus on prevention can save you 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.



Increase workforce engagement through benefits.

Real estate entities have had difficulty attracting and retaining employees, but those with a benefits strategy based on personalization and fostering a **quality employee experience (QEX)** will boost engagement, have an advantage in recruiting and retention and lower risk as well. Work with your broker to identify the right data for a personalized benefits strategy.



Be transparent with your broker.

Let your broker know what changes you've made to the business, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, so your broker can identify the best options.

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Canada Commercial Rate Outlook

HUB International interviews brokers and risk services consultants and analyzes survey data to bring you our proprietary rate report each quarter. Read the HUB 2024 Commercial Lines Rate Outlook to know what to expect in advance of your next renewal.

Coverage	2024 Canadian Commercial Rate Outlook	Insights
Commercial Automobile (5 or fewer vehicles)	↑ +5% to 10%	Some inflationary claims cost pressures remain. Given the higher frequency of claims and greater repair costs, rate filings are increasing in most provinces.
Commercial Automobile (6 or more vehicles)	↑ +1% to 5%	Underwriting performance remains profitable, but the cost of some claims has risen due to inflation. Supply chain delays have stretched timelines to resolve claims.
Liability	↑ +5% to 10%	Improved performance in general liability has helped insurers offset poor performance on property lines. Carrier appetite has broadened as insurers look to underwrite more liability to diversify their book.
Excess Liability	↑ +5% to 10%	Excess casualty remains fairly stable with some variability depending on exposure and attachment point. Given increases on primary coverage, some excess layers are increasing accordingly. Some classes of business with favorable loss history might see rate reductions.
Commercial Property	↑ +5% to 25% (varies by geography)	Commercial property rates will continue to increase, and in some locales, they could rise substantially as a result of increased reinsurance costs. Capacity will be challenging in CAT-prone zones. Increased claim frequency and severity, supply chain delays and unprecedented catastrophic activity — including wildfires across the country and a 1,000-year flood event in Nova Scotia — will also affect rate. As the cost to rebuild has increased, focus remains on insurance-to-value, which will affect overall premiums.
Residential/Habitation Property	↑ +5% to 10%	Rising reinsurance rates, construction costs, and supply backlogs are pushing up rates and elongating claims timelines. Additional attention on insurance-to-value will also affect overall premiums given the increased reconstruction costs.
Catastrophic Perils	↑ +11% to 20%	Increases will be much higher in CAT-prone areas. Unprecedented wildfires across the country and the catastrophic flood in Nova Scotia were indicative of the increased severity and frequency of perils.

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Environmental	Flat	Rates for Pollution Legal Liability (PLL) and Contractors' Pollution Liability (CPL) coverage are projected to remain flat. However, there is increasingly restrictive coverage for PLL coverage of emerging contaminants. Insureds should carefully review any new restrictions or exclusions in policies before renewals. Pollution policies combined with general liability are likely to see rate increases due to the GL exposure.
Directors & Officers: Private	↓ (-5%) to ↑ +5%	Insureds with no major changes can expect to see no rate increases at renewal or even slight decreases. Those with claims or significant exposure changes will see a modest premium increase. Note that financially challenged accounts will have a difficult time finding D&O insurance.
Directors & Officers: Public	↓ (-15%) to Flat	Capacity has increased for D&O coverage at publicly held companies, leading to rate decreases on both primary and excess layers, with excess layers seeing the greatest reductions. Organizations that trade on U.S. exchanges or have gone public in the past two years will see the greatest reductions.
Cyber Liability	↓ (-10%) to ↑ +10%	The cyber insurance market has shown signs of stabilizing through the third quarter of 2023. Some public sectors such as higher education, healthcare and municipalities still are problematic for underwriters, while some technology companies face additional scrutiny due to recent attacks on software and managed service providers. Insurers are focusing on information security controls when assessing risks and making pricing decisions.
Inland Marine	↑ + 5% to 10%	Frequency and severity of claims remain an issue, while supply chain issues and continued catastrophic events are leading to rate increases, similar to challenges faced for property coverage.
Marine	↑ + 5% to 10%	The commercial marine insurance market is hardening, leading to rate increases. As clients approach fourth-quarter renewals, insureds need to accurately assess risks, understand changing coverage terms, and consider alternative options. Active risk management remains crucial to keeping premium hikes to a minimum.

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Agribusiness	↑ +11% to 20%	<p>Limited capacity will present challenges in agribusiness. Rates will continue to rise for insuring buildings and equipment. In addition, inflation will make it difficult for agribusinesses to secure adequate limits, particularly for enterprises with an adverse claims history.</p> <p>Premiums for food and beverage operations continue to rise. Risks remain difficult to place due to the increasing severity of losses worldwide.</p> <p>In farming, claims from forest fires have reduced capacity. However, liability rates remain stable, with underwriters offering ample capacity.</p>
Cannabis	+5% to 10%	<p>Expanding export opportunities and the loosening of global regulations have increased liability insurance options, with more competition entering the market.</p> <p>Property remains static with 5% rate increases continuing. However, rising inflation is elevating the reconstruction value of buildings by a minimum of 5%. With many buildings already underinsured, property insurance costs will further rise as building valuations increase. However, new entrants are expected in the property market, increasing capacity.</p> <p>D&O remains stable, but economic strain and highly leveraged balance sheets will prompt underwriters to closely scrutinize accounts.</p>
Construction	↑ +1% to 5%	<p>Rates are holding steady for most of the industry, though best-in-class risks may see slight rate reductions.</p> <p>Premiums are growing as a result of valuation adjustments due to inflation and gross receipts changes.</p> <p>Large value course of construction is seeing some upward rate pressure on higher value frame projects due to the number of carriers required to place those risks.</p>

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Education	↑ +10% to 12%	<p>On property coverage, rates are expected to rise 5% with inflationary increases of property values up 7%.</p> <p>Institutions that have not right-sized their property valuations will continue to see double-digit increases in attempts to close the gap on under-valuations.</p> <p>After several years of large rate increases, cyber rates are expected to stabilize, particularly for institutions that have improved their cybersecurity.</p> <p>Commercial general liability rates are expected to rise 5%, except for abuse coverage, which continues to be challenging. Underwriters are linking rates for abuse and molestation coverage to the risk management and mitigation policies, procedures and training protocols of policyholders.</p> <p>D&O rates will rise 5% on average, but institutions facing renewal after a three-year guaranteed rate could see much larger increases.</p>
Entertainment	↑ +5%	<p>Property and liability rates in the event space are expected to increase 5% to 10% in 2024.</p> <p>In film, policyholders with claim-free accounts may see flat renewal rates.</p> <p>D&O in the entertainment sector will likely increase 5% with cyber up about 15% on average.</p> <p>Abuse and molestation insurance remains challenging, with rates rising 25% or more due to reduced capacity.</p>

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Financial Institutions	↓ Flat to rate reductions	<p>For the most part, financial institutions will see an accommodating insurance market. Rates are likely to be flat for private company D&O insurance; for public companies, rates for D&O coverage will be flat in 2024 after premiums declined in 2023.</p> <p>General partnership liability coverage will decrease as much as 10%, as there are only a handful of carriers in this segment in Canada.</p> <p>Cybercrime insurance rates are flat for primary layers, especially for smaller companies. For excess layers, however, rates are falling 20% to 30%, or even more.</p> <p>Premiums for reps and warranties (R&W) insurance will experience no or moderate increases in 2024, due to an expected rebound in M&A. However, rates fell significantly in 2023, as increased competition for a smaller number of deals led to discounting.</p>
Healthcare	↓ Rate reductions	<p>For medical malpractice insurance, there has been an expansion of capacity and significant competition for new business; insurers are agreeing to steep discounts as a result.</p> <p>Those seeking healthcare D&O insurance will also see significant rate reductions, especially in high-risk markets.</p> <p>There are difficulties in property insurance in healthcare. Some underwriters may offer discounts through bundling property and liability coverage.</p>
Hospitality	↑ +5% to 10%	<p>Rates are improving for both property and liability across the country. However, hospitality businesses with property exposures to natural catastrophes such as wildfires may see greater rate increases due to the frequency and severity of these events in many provinces within the past year.</p> <p>Properties in the Maritimes may also see increased rates due to potential hurricane exposure.</p>

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Coverage	2023 Rate Outlook	Insights
Nonprofit	↑ +7% to 20%	<p>The insurance landscape is becoming more challenging.</p> <p>Small and medium enterprises in the nonprofit sector will see rate increases, particularly in D&O, cyber and abuse and molestation coverage. With limited capacity, insurers are enforcing more stringent underwriting guidelines, extending the time necessary to successfully secure a quote.</p>
Real Estate	↓ (-5%) to ↑ +10%	<p>Real estate insurance will see a mixed rate environment in 2024.</p> <p>Properties in high-catastrophe (CAT) risk zones will see little or no rate relief in 2024 and are likely to experience premium hikes.</p> <p>Rate reductions may be available for best-in-class properties with clean loss histories. However, the higher cost of rebuilding, along with greater property valuations, are likely to offset premium decreases.</p>
Sports	↑ +5%	<p>Depending on the age and construction of buildings, property in the sports industry is expected to rise 5% or more.</p> <p>Abuse and molestation coverage will continue to be challenging. Unlike the days when it was included in general liability pricing, abuse coverage will continue to be underwritten separately; the sports industry can expect to see limits reduced for such coverage in 2024.</p>
Transportation	↓ Rate reductions for fleets +5% to 10% for IRCA	<p>Increased competition in the transportation market has led to market softening across Canada, but poor underwriting results posted by one large insurer in the space could impact rates in the future.</p> <p>Additional capacity through Lloyd's is also making excess liability more available.</p> <p>Fleets: Historically, only best-in-class trucking companies enjoyed better terms and conditions, but the market conditions are now allowing second- and even third-tier companies tap into those benefits.</p> <p>IRCA: Renewals can expect to see 5% to 10% rate increases.</p>

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HUB Real Estate

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