

Outlook.

Real Estate

The real estate industry faces vast uncertainty, but savvy owners and investors will find opportunity in risk management.

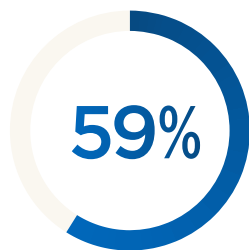


Risk & Insurance | Employee Benefits | Retirement & Private Wealth



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



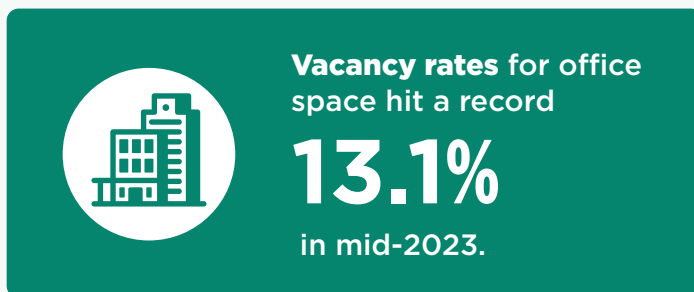
Percentage of real estate executives who say they're prepared for climate change and weather disasters in 2024¹

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.

In part, profits will depend on location, location, location.

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 seven out of 10 real estate respondents to HUB's Outlook Executive Survey say that economic challenges and unpredictability constitute a threat to profits in 2024, making it the most-commonly identified risk to the bottom line.



That fear is already playing out. Vacancy rates for office space hit a record high of 13.1% in mid-2023, and growth in retail and multifamily housing has slowed. The industrial sector remains a bright spot in commercial real estate, with rent increasing 8.9% compared with 2022, thanks to growth in e-commerce and manufacturing.³

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

8.9%

compared with 2022.



However, there's a marked difference between thriving areas, like Dallas and certain markets in Florida, versus sagging markets such as San Francisco. 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.

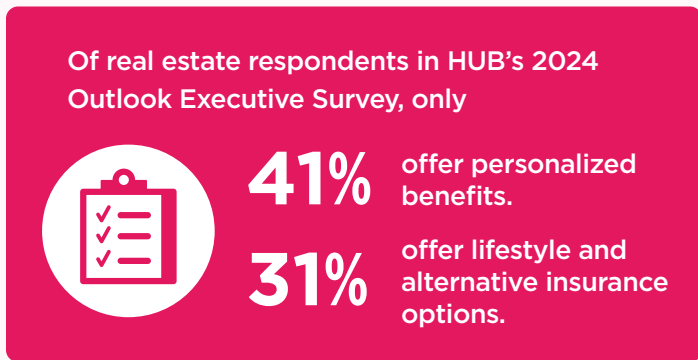
Insurance rates represent a looming threat to profits. Premiums have risen across the board, even for owners and operators with strong risk management and few claims. In catastrophe-prone regions, real estate investors are seeing double- or triple-digit premium increases.

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

2. AP, "[Federal Reserve is poised to leave rates unchanged as it tracks progress toward a 'soft landing.'](#)" September 18, 2023.
3. National Association of Realtors, "[Commercial Real Estate Market Insights Report](#)," July 2023.

The labor shortage will continue in real estate — but personalized benefits can help solve recruiting and retention woes.

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 labor 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.



More than 50 million workers quit their jobs in 2022, with many seeking better work-life balance and flexibility, increased compensation and a strong company culture.⁴ While the turmoil in labor markets has improved somewhat in 2023, turnover in property management remains at 33% of the workforce, compared with 22% for U.S. businesses as a whole.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 real estate respondents in HUB's 2024 Outlook Executive Survey, only 41% offer personalized benefits, and just 31% 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 offering specialty insurance or policies that support extended personal leave to improve employee wellbeing.

4. U.S. Chamber of Commerce, "[Understanding America's Labor Shortage: The Most Impacted Industries](#)," October 16, 2023.
5. National Apartment Association, "[The Great Resignation Challenge](#)," June 28, 2023.
6. National Apartment Association, "[The Big Quit: Retaining and Attracting Talent Post-Pandemic](#)," August 1, 2022

For owners and operators, staying resilient in 2024 will require the right plan and coverage.



Commercial real estate insurance costs will worsen in 2024, particularly in catastrophe-prone areas. The insurance industry is trying to control expenses and improve its own profitability after experiencing a \$26.9 billion net underwriting loss in 2022, which was more than six times higher than in 2021.⁷

More frequent and severe weather events like hurricanes and wildfires⁸, higher property values that increase replacement costs and litigation expenses have pushed rates upward.

Generally, the real estate industry should expect insurance rates to rise across multiple coverages, with property rates increasing as much as 15% — or higher — for the greatest risks. Real estate owners and operators should expect particularly difficult renewals for catastrophic perils coverage, which could have increases in excess of 30%, as well as for residential and habitational property insurance, which could see increases of 35%.

These increases come on top of rate hikes 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 states to respond to insurance capacity challenges through legislation and by beefing up building codes to ensure properties withstand catastrophes. Also, alternative risk transfer vehicles like **self-insurance, 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 \$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. American Property Casualty Insurance Association, Verisk, "[Underwriting Losses Soar, Net Income Shrinks for P&C Insurers in 2022](#)," March 28, 2023.
8. TIME, "[Commercial Real Estate is in Trouble, Climate Change Is Part of the Problem](#)," August 17, 2023.

In protecting real estate operations' long-term business viability, it's all about risk management.

Premiums are up, and insurers are facing record losses from extreme weather events.⁹ In addition, the real estate industry will continue to grapple with nuclear verdicts. In the previous decade, premises liability cases comprised 15.4% of all verdicts of \$10 million or more, with an average award of \$31.7 million.¹⁰ Often, insurance only covers part of the verdict.

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 extreme 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 nuclear verdicts, crime or people suffering injuries on their properties. Proper maintenance and site security are essential, baseline risk management measures for any real estate owner.

Sometimes, events lead to losses so extreme that insurance can't patch all the holes to keep a ship from sinking. Yet just one-quarter of real estate entities have an effective risk mitigation strategy, while fewer than 40% align risk mitigation strategies with organizational goals, according to HUB's Outlook Executive Survey, indicating gaps in preparedness.

In the previous decade, premises liability cases comprised 15.4% of all verdicts of \$10 million or more, with an **average award of**



\$31.7 million.

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.

In addition, the risk of cybercrime can be addressed through multi-factor authentication (MFA) protocols and endpoint detection and recovery (EDR). 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.

9. Swiss RE, "[Severe thunderstorms account for up to 70% of all insured natural catastrophe losses in first half of 2023](#)," August 9, 2023.

10. U.S. Chamber of Commerce Institute for Legal Reform, [Nuclear Verdicts: Trends, Cases and Solutions](#), September 2022.

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, a greater number and intensity of catastrophes and nuclear verdicts 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.

Nuclear verdicts against real estate companies are exploding. 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.

The information provided in this piece is solely for general information purposes and, in particular, is not intended as tax or legal advice. We do not warrant the accuracy, completeness, or usefulness of the information. We disclaim all liability and responsibility arising from any reliance placed on the information by you or anyone else who may be informed of any of its contents.

This information may include content provided by other parties. All statements and/or opinions expressed in these materials, other than the content provided by HUB, are solely the opinions and the responsibility of those other parties and do not necessarily reflect the opinion of HUB. We are not responsible or liable for the content or accuracy of any materials provided by any other parties.

Real Estate Industry Rate Guide – U.S.

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 Report to know what to expect in advance of your next renewal.

| Coverage | 2024 Real Estate YOY Rate Guidance | Insights |
|--|--|--|
| Commercial Property | +5% to 15% or higher | <p>The property market is facing unprecedented challenges, with reinsurers restricting capacity, particularly for properties with an unfavorable brush mapping profile or protection class.</p> <p>Carriers are reducing total insurable values (TIVs) per location while applying increased deductibles and loss limits. Some carriers are not renewing policies with especially high risks.</p> <p>Real estate owners should be prepared to demonstrate why their properties are fully prepared to handle risk to obtain coverage.</p> <p>Underwriters are declining risks on properties that don't have a current replacement cost valuation and are applying higher rates to those that do. Carriers are also continuing to expand restrictive clauses (such as coinsurance, margin, and loss limits), and are focusing on strong engineering and loss control measures for high-value and CAT-exposed properties.</p> |
| Residential Habitational Property | +10% to 35% | <p>Retail (or admitted) carriers continue to reduce availability for frame habitational properties and to decline renewals. As a result, habitational risks are moving to surplus lines (or non-admitted) carriers. Buildings constructed prior to 1980 will see high premium increases. Habitational risks that cannot demonstrate well-maintained electrical and plumbing systems and roofing will have few coverage options.</p> |
| Catastrophic Perils | +20% to 30% for lesser Tiers/ Zones +30% to 50% or higher for High-Hazard Tiers or Zones | <p>Losses sustained in 2023 will continue to push rates upward in 2024. While traditional CAT perils such as floods, earthquakes and windstorms remain a concern, insurers are also focused on severe and convective storms, wildfires, winter storms and deep freezes, with some extremely high-risk properties seeing premium increases double or more. There are only a few carriers in the non-admitted market entertaining new business for properties in high-hazard zones.</p> <p>Pricing is particularly challenging for smaller portfolios, especially as underwriters strive for minimum price per million with little or no flexibility.</p> <p>On a more positive note, some lenders are listening to market updates with some flexibility on limits required for portfolios that have performed a probable maximum limit (PML) study.</p> |
| General Liability | Flat to +10% | <p>Most carriers will be seeking rate increases in the single digits. Risks in states with high litigation will see the highest premiums. Schedules with larger deductibles are likely to have the smallest increases; certain circumstances may result in premium declines.</p> <p>General liability rates have been flat or falling in favor of hefty premium increases on property lines. However, premiums in GL will eventually rise, in some cases dramatically.</p> |

| Coverage | 2024 Rate Guide | Insights |
|--|-----------------|---|
| Workers' Compensation | -5% to Flat | Workers compensation remains the most profitable line for the commercial insurance industry, as carriers have been stable and offered competitive rates. However, with claims on remote workers rising, inflation may affect future losses with increases in wages and medical costs. |
| Umbrella & Excess Liability | -5% to 15% | <p>Social inflation and nuclear verdicts have cut availability and increased premiums. Carriers are offering reduced limits; real estate investors and operators will need to access the Excess & Surplus (E&S) insurance market to find adequate coverage. Be mindful of quotes with self-insured retentions as carriers attempt to distance coverage from claims activity on primary limits.</p> <p>Carriers are significantly reducing limits offered at renewal. For example, \$10 million excess limits are being renewed at \$5 million, and \$5 million are being renewed at \$2 million – but for the same premium as the higher limit.</p> |
| Environmental | Flat to +10% | Carriers are trying to build their portfolio in environmental coverage through competitive pricing where possible. For insureds with a favorable loss history, rates for environmental coverage will remain flat or increase slightly. Insurance for challenged risks (i.e., those with claims severity or frequency) are seeing premium increases commensurate with losses. |
| D&O: Private | -10% to +10% | After years of difficult market conditions, pricing and retentions for private company D&O have improved. There is more competition as carriers have lessened their restrictive classes and, in some cases, are offering higher limits than in years past. |
| D&O: Public | -20% to +5% | The D&O market for public companies continues to improve. There remains plenty of capacity, and insureds with no major issues will see favorable renewal terms. Insureds with difficult risk profiles may see higher pricing, but competition will keep rate hikes to a minimum. |
| Cyber | Flat to +10% | <p>The real estate sector has been subject to both cyberattacks and ransomware demands, including taking IT systems hostage and compromising escrow funds. Generally, carriers are reporting increased cybercrime.</p> <p>While claim activity is up, competition has muted rate increases. That could change in 2024, though not to an extreme extent, as was the case in 2021.</p> |

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



HUB Real Estate

When you partner with HUB, you're at the center of a vast network of experts who will help you improve your profitability, enhance the vitality of your workforce and remain resilient into the future. 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 advisor. We're here to help.

\$2.3B

in commercial insurance premium brokered by HUB

47,200

real estate clients

117,000

insurance policies managed

Stay up to date

Subscribe to receive risk and insurance insights and event invitations throughout 2024.

Subscribe