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Real estate and insurance: Turning risk domestically or worldwide into opportunity

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Whether investing worldwide or growing domestically, real estate companies are looking at risk as an opportunity. They are examining exposures associated with potential transactions and determining better ways of identifying, quantifying, mitigating, and financing those risks in order to close transactions. The subject of risk, having reached the attention of the boardroom after September 11th, continues to be a major factor in driving business growth. Today, chief risk officers and risk managers at real estate companies have higher profiles, and those with broader knowledge of potential risk tend to help bolster deals and keep investors content that their assets are protected. Although insurance market capacity normalized soon after September 11th, the 2005 hurricane season triggered a sharp contraction, particularly for property insurance, a key coverage line for real estate. Concern from rating agencies at that time induced insurers to deem their aggregate limits overextended. At the same time, changes in catastrophe loss modeling programs indicated a higher propensity for windstorms, increasing both coverage demand and pricing.

Throughout 2007, the property insurance market softened considerably and market competition increased. The second consecutive year without major catastrophic events and a slow hurricane season helped to encourage new entrants to the market. This environment was ideal for insureds, as many were able to negotiate favorable deals which included significant rate decreases, increased capacity, and improved terms and conditions. Clients with little to no catastrophe exposure and good loss history have been achieving renewals with average rate decreases of 20% to 30%.

The property insurance market continues to undergo significant changes. Insurers are pushing for premium growth and new business to increase revenue, leading to more competition and eroding rates. This further softens an already friendly insurance market for insureds. Many insurers are pressured by insurance market conditions and competitors' behaviors; as a result, many are forced to lower rates to maintain a competitive edge and renew existing programs.

Marsh helps clients in all aspects of risk management for real estate firms, whether through finding capacity in a limited insurance market, coordinating complete coverage for global risks, or addressing the effects of climate change. With dedicated real estate teams in major cities throughout the world and the practice expanding in emerging markets, more than 400 professionals are focused on the issues affecting Marsh's real estate clients, with U.S. \$3.5 billion in premium placed and coverage secured for more than 1 billion s/f of commercial space and more than 2 million apartment units.

Marsh helps our clients turn risk into opportunity. With tools like our benchmark study and industry-specific knowledge, Marsh's real estate practice assists our clients in reducing the risks and the cost of risk associated with real estate investment and development. Marsh actively develops cutting-edge solutions in new products, program designs, placements, service and administration,

using the depth and breadth of our global resources. Marsh provides solutions to resolve risk issues from natural hazards, to more complex risks including environmental liabilities, contractual, fiduciary and professional liability exposures.

Marsh's Global Real Estate Practice and National Center of Excellence are based in Boston. Marsh's teams have experience with construction projects, design liability, owner controlled insurance programs, environmental conditions, and many other areas of risk across commercial, residential, and mixed-use properties and development projects. Together with the support of the global real estate and construction practice, Marsh delivers a depth of expertise that is unmatched in the region.

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