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Protecting your property and managing your risk - by Spencer Macalaster

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Whether you’re in the business of buying, selling, leasing, managing, developing, or redeveloping property, you have a lot to oversee. With so many factors in play, an off-the-shelf approach to insurance will not protect you or your business should disaster strike.

The real estate industry has faced many obstacles in recent years, from climate change to the COVID-19 pandemic to the new and changing laws and regulations in between. At Risk Strategies, our breadth of knowledge and specialty focus allows us to take a deep dive into the ever-evolving exposures your real estate business faces, including:

• Environmental/climate-related issues, including coverage gaps, exclusions & losses due to water, wind, fire, hurricanes, tornadoes, and other catastrophic weather events

• Shifting laws and regulations, notably labor laws in states like California and New York

• Social inflation due to recent trends, leading to rising claims costs, increased litigation, new negligence concepts, broader definitions of liability, and larger compensatory jury awards

• Exclusionary languages, specifically those related to increasing tragic events like shootings

• Builder’s risk challenges as extended projects are making it increasingly difficult to obtain the full policy limit amount that is needed from start to finish

The hard market is in a state of transition as we’re facing increasing premiums and deductibles, reduced limits, and declining coverage in flood and wildfire zones. Along with the coverages necessary to tackle these obstacles, such as property and casualty, professional, management, catastrophic loss, and environmental liability, we offer:

• Critical reading and analysis of governing documents for residential associations, joint venture agreements, development projects, and tenant leases

• Loss forecasts, analytical modeling, and benchmarking

• In-depth claim analysis and review on a continuous basis

• COPE data gathering and validation

• Property valuation modeling

• Creative solutions from a national perspective for local risks

• Efficient communication with lenders and third parties during loan structures

• AIR catastrophe modeling to understand your exposure to hurricanes and tropical storms

• Flood analysis

• Captive solutions for owners with large residential portfolios

Today’s commercial property market is one of the most challenging we have ever faced. Pricing is the highest we have seen in over 30 years, with no signs of slowing.

Relentless severe weather events are driving treaty and facultative reinsurance rates higher and causing reinsurers to reduce their aggregate exposures to catastrophic risks. This puts pressure on primary insurers to increase rates and reduce the risks they write. Hard market conditions will extend into next year.

In 2023, rate increases ranged from 10% to 15% for businesses with:

• Favorable loss experience

• Adequate property and business interruption (BI) values

• A good risk profile

• Little to no catastrophe (CAT) exposure

Occasionally, rates remain flat or dip slightly on accounts that measure up in all categories. Companies that don’t check these boxes are experiencing rate increases of 50% or more.

The following factors continue to affect the property market:

• Severe convective storms lead the market in aggregate losses, ahead of hurricanes: Thunderstorms, hailstorms, and tornadoes caused more than $54 billion in losses through the first nine months of 2023 alone. These events are increasing in frequency and severity, making it difficult for insurers and reinsurers to diversify portfolios.

• More regions are experiencing climate change-related damage: Devastating losses are occurring across the nation, not just on the coasts. “Tornado Alley” has expanded East. Missouri saw flash floods and landslides last year. Freezes, wildfires, wind, and convective storms have pounded Texas. As more people and businesses move to storm-prone areas, losses will only grow.

• Supply chain disruptions persist for products and supplies: These continued challenges affect BI and contingent BI coverage. New construction projects that require specialized equipment experience long lead times — procurement can take between 12 and 24 months.

• New underwriting criteria is trending: Insurers in certain regions are now including crime scores in their decision-making process.

Spencer Macalaster is executive vice president of Risk Strategies, Boston, Mass.