REAL ESTATE & HOSPITALITY 2024 FALL/ WINTER MARKET UPDATE

Gallagher

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PROPERTY

As 2024 draws to a close, the property insurance marketplace has changed significantly from a year ago. Insureds who diligently maintained adequate property valuations are positioned to negotiate the removal of margin clauses and occurrence limits of liability endorsements. Best-in-class risks may even recoup lost blanket limits. Insureds previously required to accept portfolio-level percentage named storm deductibles are able to revert back to per-location deductibles. Despite hurricanes Helene and Milton, rate shocks have been largely avoided.

Shared and Layered (S&L)

Risks with high degrees of CAT exposures that saw large rate increases in 2023 are experiencing the largest rate decreases in 2024, largely thanks to increased market capacity and competition, particularly from London. Incumbent insurers pushing rates are being replaced, seeing their line size reduced, or their position on the placements changed to achieve better pricing. As a result, many insureds are receiving high single-digit rate reductions, with some reaching double-digit rate decreases.

Single carrier

Single carrier property placements are not receiving the same level of rate decreases. Rates are generally flat to mid-single-digit increases depending on claim activity. These programs avoided massive rate increases experienced by large S&L deals but still have ground to make up in terms of rate adequacy. Replacing incumbent insurers with competitors willing to write additional lines of coverage provides the best chance for rate reductions. The spread of risk allows them to price more aggressively. Maintaining large loss limits above $500 million is still difficult, and the $1 billion limit is all but extinct.

Emerging risks and trends

So-called secondary perils have continued to shift market sentiment. Losses due to severe convective storms, wildfires, derechos, and straight-line wind have become increasingly common in geographies thought to be insulated from these perils. In the northeast, underwriters are newly focused on roof quality for strong wind resistance. Underwriters have also expressed concern over wildfires in states like NJ, MA, CT, and NY. At the time of writing, the 5,000-acre Jennings Creek fire near the border of New Jersey and New York is only 20% contained.[1]

What about acquisitions?

The timing of an asset acquisition relative to renewal significantly affects underwriting. Mid-term acquisitions do not benefit from portfolio-level underwriting and are evaluated by weighing additional premiums against projected losses. If a new asset is declined, finding stand-alone coverage can be cost-prohibitive.

[1] https://www.cbsnews.com/newyork/news/jennings-creek-wildfire-new-york-new-jersey/

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Builder's risk

The marketplace for wood frame builder's risk placements has seen modest competition and momentary rate relief. However, elevated construction material and labor costs are increasing exposures and leading upward pressure on premiums. High-quality submission narratives are essential, and brokers should be directly involved in construction and design planning. Educated decisions will impact insurance costs for the completed asset. For example, general contractors may suggest NFPA 13R fire suppression systems to reduce costs, but insurers prefer standard NFPA 13 systems as they are designed for both life safety and building preservation. Insurers of the completed asset may decline the risk altogether if the system is NFPA 13R.

CASUALTY

Casualty insurance renewals vary significantly depending on asset class. For non-habitational risks like office, retail, industrial flex, and warehousing, the market is fairly stable, with ample capacity delivering flat to moderate rate increases at renewal. In contrast, habitational asset classes like hotels and multifamily properties face a more difficult market.

As standard capacity evaporates, clients are turning to the excess and surplus lines market to restore coverages now excluded by the standard market. This is particularly true for multifamily assets, as underwriters apply exclusions for firearms, sexual abuse, assault and battery, habitability, and, in rare cases, total liquor and total pollution liability. Insurers are increasingly wary of lawsuits that name the owner/operator following incidents such as violence among tenants, making crime scores even more important to the underwriting process. Larger insureds with the ability to retain risk may benefit from deductible and self-insured retention structures to absorb frequency claims that drag on their loss performance.

In softer market conditions, lead $25 million umbrella placements were available for multifamily portfolios, but today they are nonexistent. Many insureds are relying on $5 million, $10 million, or $15 million lead umbrella placements. Structuring umbrella towers in $5 million layers makes it easier to assemble capacity, as carriers can be more easily moved to where their pricing is most efficient.

Highlighting proper risk management controls, policies, and procedures is crucial to a successful renewal. Insurers favor insureds with detailed security protocols for resident safety, favorable crime scores, and tenant insurance requirements in leases. Insurers generally require 5 years of loss history, but additional clean loss years will further improve underwriting outcomes.

Finally, mixed-use multifamily developments and retail operations must carefully review the insurance requirements they impose in tenant lease agreements. Social tenants like bars, restaurants, and nightclubs must carry full assault and battery limits in case landlords are dragged into a claim. Relying on sublimited coverage may leave landlords exposed.

CASUALTY

Spotlight

Affordable housing	Hospitality spotlight
Capacity shortages are particularly severe for affordable housing risks, and any momentum lost in property rates has found its way to casualty placements.	Underwriters are keenly focused on policies and procedures to identify and curtail human trafficking risks. Insureds without robust controls, reporting procedures, and documentation will face tougher renewals.
While first-dollar general liability policies were widely available in the excess and surplus lines market, deductibles and self-insured retentions now range from \$100,000 to \$250,000 for large portfolios. These high deductibles are misaligned with traditional lending requirements, creating additional challenges for insureds.	Partnering with a hospitality specialist is essential for fending off exclusions for assault and battery, sexual abuse, and human trafficking, though obtaining this coverage comes at a cost. Exclusions for PFAS are more commonly applied.
Double-digit rate increases are prevalent as underwriters work to stay ahead of accelerating claims frequency and growing severity.	Many insurers are pushing deductibles as high as \$100,000 for general liability policies on an each and every claim basis. A handful of insurers have evaluated historical loss activity and sought deductibles that would effectively eliminate claims and reduce coverage.

EXECUTIVE FINANCIAL PROTECTION

Directors & Officers liability

The Directors & Officers liability insurance market remains soft, driven by an oversupply of capital that entered the marketplace during the last hard market cycle of 2019–2021. This surge of capital leads to a rapid increase in insurers, with up to 60 viable markets now offering D&O coverage. This oversupply has kept a lid on prices, prompting insurers to innovate. A notable development is the introduction of a new parametric trigger product for public D&O designed to serve as a deductible financing option.

Private D&O has not experienced the same level of aggressive price decreases. A trickle of claims related to distressed assets, particularly low-occupancy office assets, in breach of their debt covenants leading to foreclosures has tempered price reductions.

Fiduciary

The fiduciary liability market remains stable as we observe generally flat renewals. However, companies with employee benefit plans exceeding $500 million in assets under management continue to see claims related to fee litigation.

Cyber

Abundant capacity has kept the cyber market competitive despite increased claims activity. There is a general sense that, as claims continue to manifest, a correction may be on the horizon, but there has been no evidence of firming pricing so far.

E&O

Errors & Omissions is yet another stable market for executive financial protection coverages. As inflationary pressures ease and capital costs decline, developers are resuming projects. As with most lines of coverage, exposure growth will drive premium growth for insurers in this market.

The market for E&O is not as broad as D&O, with roughly 10–15 insurers offering coverage. With less capacity, appetite is more prone to fluctuations. Tailoring E&O coverage to meet specific client needs is essential, and working with an EFP expert is key for placing the correct coverage.

Crime

For crime coverages, clients are most exposed to losses from social engineering scams. Insureds should evaluate limit adequacy with their broker and be sure to avoid troublesome sublimits. This market is stable from a pricing standpoint.