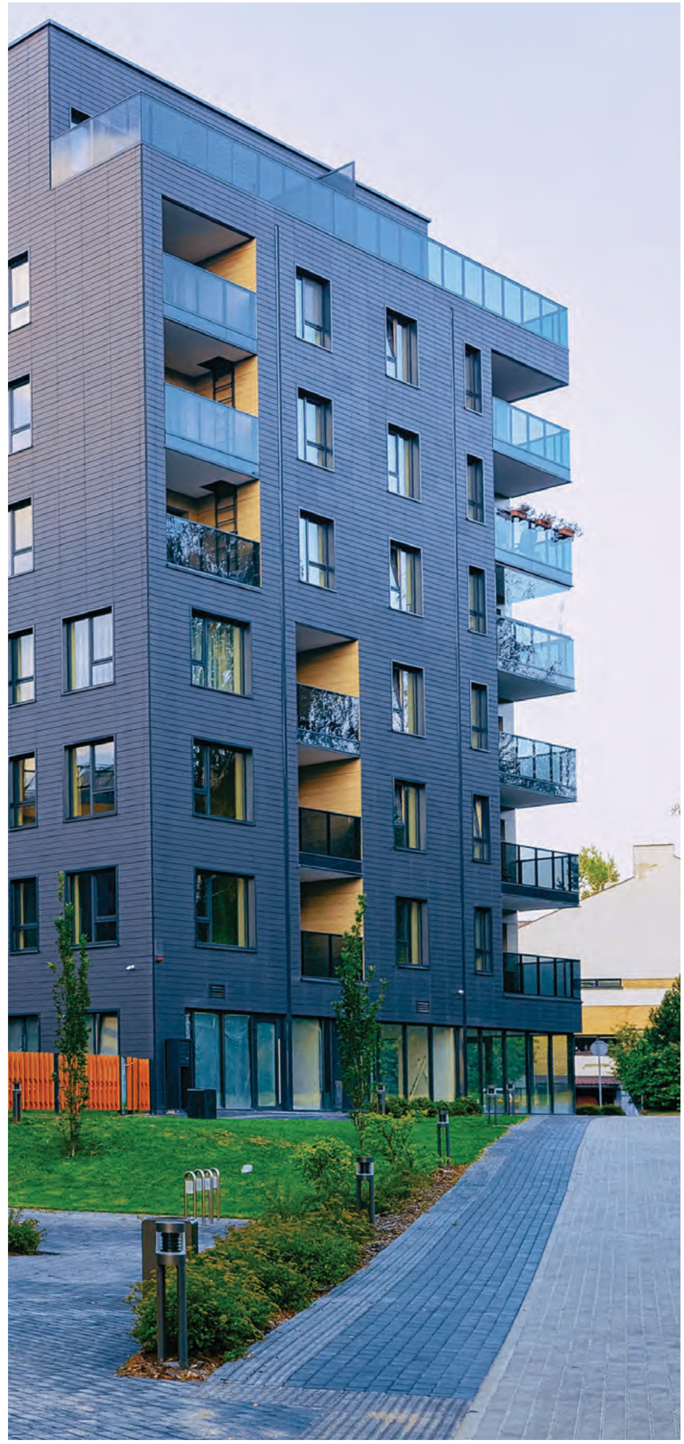
REAL ESTATE & HOSPITALITY 2025 SPRING MARKET UPDATE

Gallagher

Insurance | Risk Management | Consulting

PROPERTY

Despite the losses from the Los Angeles wildfires, the property insurance marketplace has improved for most insureds, putting the hard market in the rearview mirror. While prices remain elevated compared to pre-2023 numbers, a general easing of rates can be achieved. How much improvement depends on individual risk characteristics such as geography, loss experience, asset class, valuation adequacy and program structure.



Rates

Barring loss experience, rate changes for real estate insureds are largely influenced by program structure and exposure to catastrophic (CAT) risks. CAT-exposed, shared and layered placements are receiving the most rate relief. These insureds saw the steepest rate hikes during the hard market and are now benefiting from corrections. Ample capacity, especially from London markets, is fueling competition and returning decreases well into the double digits.

For those shared and layered placements without major catastrophic exposures, flat renewals are achievable. Single carrier placements are also improving, but to a lesser extent. A single insurer must ingest the whole loss and is more exposed to reinsurance market volatility. As such, they are underwriting more cautiously, with renewal rates falling closer to flat or mid-single-digit increases.

The toughest market conditions remain for insureds with older (pre-1985) habitational risks or significant loss histories. Many smaller insurers have cut their appetite for these risks, pushing them into the excess and surplus lines market (E&S). Insureds still in the admitted market are receiving moderate increases, albeit far below E&S pricing. Insureds entering the E&S market will experience sticker shock, but rather than opting for the cheapest quote, they must focus on a program designed for longevity that can handle future property rate volatility.

Terms and conditions

similar to rate, the program structure will impact whether specific terms and conditions can be adjusted. Shared and layered placements are seeing insurers willing to offer blanket limits and remove restrictive endorsements like occurrence limits of liability and margin clauses — provided valuations are adequate.

Insureds refinancing debt must pay close attention to lender requirements for business income coverage. Many lenders now require 18 months of lost rent coverage, which may necessitate adjustments to the policy's period of indemnity for the actual loss sustained valuation basis.

PROPERTY

Marketing strategy

There is ample capacity in the property market willing to compete on shared and layered placements. A well-executed marketing strategy that maximizes competition will drive cost savings. In many cases, insurers are willing to offer flat renewals to avoid losing their share of a program. Single carrier placements will also benefit from strategic marketing, but with fewer opportunities for creative structures.

Age of construction challenges

While the broader property market is softening, assets built prior to 1985 remain difficult to place. Absent evidence of a gut rehab down to the studs, the majority of admitted insurers are declining to quote these risks at any price, forcing the insured into the excess and surplus lines market. Insureds able to remain in the admitted market are receiving mid to high single-digit rate increases, but at levels that are 50% to 100%-plus beneath what they would be able to secure in the E&S marketplace.

Builder's risk

The builder's risk market is also improving, even for wood-frame construction. Increased capacity is driving competition, leading to lower pricing and deductibles. Insurers are also easing some requirements, such as site security measures, making coverage more accessible. Builder's risk placements for ground-up construction are easier to secure than those for large adaptive reuse projects in this market.

CASUALTY

As conditions in the property market soften, the casualty market continues to get more difficult. The nuanced nature of casualty underwriting means that renewal results can vary widely between individual insureds. Gallagher casualty experts are observing rate increases ranging from high single-digits to +15%.

Capacity

Capacity is strained, especially for habitational risks. Depending on loss history and account size, many insureds are being pushed into the E&S market. In the umbrella/excess market, insurers continue to reduce the limits they are willing to offer, dropping from $25 million to as low as $5 million. This forces insureds to engage multiple insurers to fill out placements, increasing cost as they run into minimum premium thresholds.

Deductibles and self insured retentions

Deductibles and Self Insured Retentions (SIR) are increasing, with some reaching as high as $250K depending on individual risk characteristics. As a result, larger insureds are exploring alternative structures like captives to control costs. Smaller insureds, unable to leverage captives, are combining admitted and surplus lines insurers to build out their towers of liability coverage. It is crucial to evaluate higher retentions against lender requirements to guarantee compliance.

Terms and conditions

We are observing restrictive underwriting, particularly for multifamily, retail, restaurants, bars and nightclubs, where losses can impact multiple people during a single occurrence. Exclusions for assault and battery, pets/animals, firearms, sexual abuse and molestation, and habitability are increasingly common. Ironically, these exclusions often conflict with the coverage that lenders require, and obtaining waivers has become even more difficult. This has forced insureds to seek out cost-prohibitive standalone coverage to fill gaps.

Risk transfer

Proper contractual risk transfer is critical to secure coverage with better rates, terms and conditions. Insureds that contract on-site security, whether armed or not, must ensure vendors carry assault and battery coverage with no sub-limits or exclusions. Property owners hiring third-party management firms must also verify that management's coverage has no exclusions or sub-limits for these problematic perils. Insureds should request evidence of insurance stipulating primary and non-contributory language to avoid claims ending up on their own loss runs.

Without meaningful tort reform to curb legal system abuses via third-party litigation financing, social inflation will continue to plague general liability and umbrella/excess coverage. Nuclear verdicts (judgments in excess of $10 million) and thermonuclear verdicts (judgments in excess of $100 million) are more common, pushing loss costs higher than insurers' premium increases can offset. This trend is keeping pressure on general liability and umbrella/excess pricing.

EXECUTIVE FINANCIAL PROTECTION

Directors & Officers liability

The D&O market remains stable for both private and public company placements due to strong competition and ample capacity. However, two recent insurer exits could indicate potential changes brewing. These departures may be early signs of a shifting market. Additionally, public company claims filed between 2017 and 2019 are beginning to develop and impact insurers' financials. During the COVID-19 pandemic, capacity rushed into the D&O market, hoping to take advantage of favorable pricing conditions. Some of the newer/smaller insurers have been unable to absorb large claims and are choosing to exit the market. While conditions remain stable for now, clients should stay informed, as changes could develop throughout the year.

Employment practices liability

The Employment Practices Liability (EPL) market is also stable, though rising claims costs could create challenges. Social inflation continues to drive up expenses, with attorney fees increasing by 20%-30% compared to previous years, making the losses associated with litigation more expensive. Last year, when competition was most fierce for D&O, some insurers expanded into EPL to grow revenue. However, this trend has slowed, and insurers are now taking a more cautious approach.

Cyber

The cyber insurance market is highly competitive due to an oversupply of capacity, but claims remain a concern. Traditional carriers are aggressively competing for market share by offering more attractive pricing and broader coverage. Newly minted insuretech companies initially gained traction via quick quoting processes and lower rates; however, their policies often provided narrower coverage. As a result, many insureds are now shifting back to traditional insurers for more comprehensive protection. Despite the competitive environment, cyberthreats are becoming more sophisticated, and the frequency of claims remains high. This ongoing risk could impact future pricing and underwriting practices.

Crime, fiduciary, errors & omissions

Crime, fiduciary liability, and errors and omissions coverage remain stable, with no significant changes expected. The Errors & Omissions (E&O) market has seen a handful of new insurers enter over the past 12-24 months, providing more options for insureds. However, pricing remains steady, and there has been little fluctuation in this space. Gallagher will continue to monitor market conditions and be prepared for potential adjustments.

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