AMWINS

State of the Market: Real Estate

Select key events and marketplace changes since the beginning of 2023 will further shape the future of the real estate market for the rest of this year and beyond. This update endeavors to provide an informative look at the key factors driving the real estate marketplace.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

LEGAL DISCLAIMER

10.23

Property

Billion Dollar Catastrophic Events – No End in Sight

Through the end of September 2023, there have been **24 confirmed weather or climate disaster events in the US with losses exceeding $1 billion.** This puts the U.S. on pace to **exceed any prior annual record number of billion-dollar disaster events.**

More specifically, 2023 marks the 16th consecutive year with insured U.S. severe convective storm (SCS) losses topping $10 billion. And, **with $52 billion of global insured loss in the first half of the year**, a staggering $34 billion (65% of the $52 billion) is attributed to SCS loss alone. This includes Tropical Storm Hilary – the first tropical storm to hit California in more than 25 years – which is estimated to have wreaked **$7 billion - $9 billion of total damage and economic loss**.

Interest Rates Near Peak

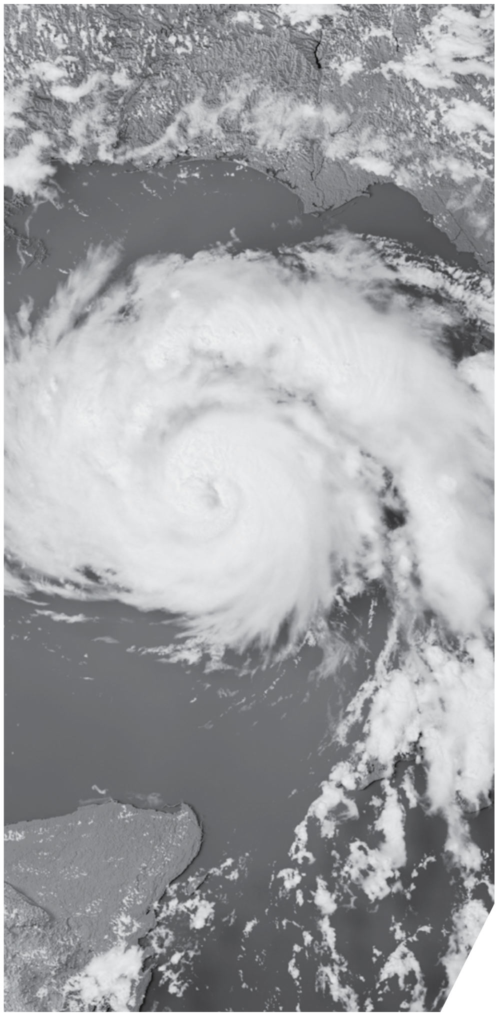
On July 26, the Federal Reserve approved a benchmark interest rate hike, raising the Federal Funds rate by a quarter percentage point to a target range of 5.25% to 5.5%. In September, the Fed held rates steady, taking a pause from the aggressive rate-hiking campaign that began in March 2022 to fight rising inflation.

The current rate is the highest Federal Funds rate in 22 years, with at least one more rate increase projected for later this year. However, **Fed officials recently signaled they are comfortable with rates** in the current range, leaving the potential rate decreases in the future up in the air.

We anticipate commercial real estate owners with floating rate loans will experience substantial rate increases as they refinance, resulting in certain properties that were once profitable becoming immediately unprofitable. While lenders may work with borrowers in specific cases to avoid default, it seems likely that the higher cost of borrowing will lead to reduced commercial property values as owners attempt to sell or are foreclosed on by their lenders.

On the flipside, apartment rental rates are growing at the slowest pace since 2011, excluding the pandemic lockdown months. The numbers are beginning to flatten out with **August 2023 marking the fourth month of year-over-year rent decline**.

Property (continued)



What to Expect for the Remainder of the Year

With the U.S. GDP increasing by 2.1% for the second quarter of 2023, the majority of experts are cautiously optimistic for a soft landing for the U.S. economy. This said, there isn't much change anticipated in the property insurance marketplace for the remainder of 2023. And, as we now have entered the final two months of hurricane season, we can only hope loss activity for the remainder of the year is minimal rather than punishing.

Attractive loss free accounts inclusive of CAT exposure are likely to continue to experience substantial rate increases for the remainder of the year. For those accounts with loss severity or frequency, anticipate the possibility of non-renewals from admitted markets/programs and even more exaggerated rate increases with increased scrutiny of deductibles, terms and conditions.

Data quality and the comprehensiveness of data provided continues to be critical while updated/accurate building valuations and rental/business income figures are details heavily scrutinized by essentially every carrier. If your client is asked to provide additional or revised information, the sooner the information can be shared the better. The number of submissions in the market remains at a record high, with underwriters choosing to focus efforts on opportunities satisfying underwriter/carrier hot buttons.

WSIA Findings

Assuming no additional hurricane activity for 2023 and no other material or industry changing losses in the final three months of the year, talk of rate increase moderation (e.g., 5% to 15% rate increases, down from substantially higher rate increases in many cases) has gained momentum specific to loss free, properly valued and attractive accounts in 2024.

This said, and while contemplating true best-in-class accounts may perform even better while undervalued and less desirable accounts will continue to be underwritten based on their own merits, example key factors we're keeping a close eye on for the remainder of the year include:

- RMS 23, once implemented by reinsurers and carriers, is anticipated to show higher PML/AAL figures than the current version of RMS
- Select carriers have begun to indicate the possibility of controlled line size increases for the remainder of 2023 (or starting in 2024), slightly increasing the supply of capacity
- A number of new property carriers are slated to open sometime between now and January 1, 2024, slightly increasing capacity
- Many carriers have begun to announce more attractive loss ratios, as compared to the past several years
- January 1, 2024, reinsurance renewals appear to be slated for a much smoother renewal process as compared to renewals from earlier this year; however, we still anticipate rate increases
- Pricing has reached a point in 2023 where certain sophisticated insureds (either with strong balance sheets or unincumbered assets) have chosen to self-insure portions of primary or buffer layers (via captives generally), or have moved to a named storm sublimit (from full limits), or have chosen to exclude named storm coverage altogether

Casualty

Shock Verdicts Lead to Tort Reform

Earlier this year in March, Florida Governor Ron DeSantis signed House Bill (HB) 837, Civil Remedies, into law, introducing significant changes to how lawsuits are filed and litigated in Florida. A companion to Senate Bill 236, the law makes substantive changes to tort laws in the state and limits the financial liability of public and private entities alike, shifting losses to the responsible parties.

Shock verdicts have gained traction in the last decade, with the median payouts **increasing by almost 28%** which is why there is so much talk about tort reform laws. Up until this year, when the Florida tort reform was enacted, the last big legislative change to make a similar impact was the Landowner Protection Act, introduced in Mississippi in 2019.

Now, almost five years later, nearly all 50 states have enacted some degree of liability protection for landowners since the initial act was passed. And states that haven't are taking notice. **Governor Brian Kemp in Georgia** has proposed similar legislative changes following Florida's ruling in an effort to level the playing field in the courtrooms and cut insurance premiums.

With many states expected to follow suit, we don't expect it will take another five years for real change, like it did with the Landowners Protect Act. However, we do expect to see a rush of lawsuit filings ahead of any new legislation being passed.

Professional Lines

Management Liability

In the last three years, we have seen the market soften and that trend appears as if it won't be changing any time soon. Average (and minimum) premiums are down year over year, with retentions reaching historic lows, and it is an opportunistic time for first time buyers or insureds with general partnership exposure who continue to purchase traditional private D&O policies.

Current market conditions have been driven in part by property investments performing relatively well (no doubt helped by the low interest environment we saw prior to the first Fed rate hike in March 2022), which in turn has resulted in fewer losses. At the same time, we have seen new carriers entering the market looking to write attractive business, but also creating an oversupply of limit capacity in the real estate-oriented management liability marketplace.

For now, the laws of supply and demand seem to suggest the soft market is here to stay. But with interest rates continuing to rise and large chunks of real estate debt maturing in the next two years, the loss picture could change the marketplace materially and in turn influence market conditions.

E&O

The Real Estate E&O market is stable. However, we are seeing a few key markets offer more restrictive terms on residential and accounts with increased discrimination claim exposures. For smaller accounts, there is less capacity than three to four years ago, but for middle market and larger accounts, there is increased capacity.

Regarding Real Estate Developer E&O, we have seen a few additional markets providing capacity which is creating favorable pricing trends and expanding coverage.

Overall Takeaway

Amwins knows the Real Estate market inside out. As we begin to see more defined trends, we will keep you informed. Our traditional State of the Market report is set for release in early December of this year, and we are prepared to work with you to help find solutions that achieve the very best available combination of pricing/terms/conditions for your clients.

With access to the cutting-edge software our in-house actuarial team licenses to deliver catastrophe risk data analysis, and **parametric solutions** expertise which can play a major role in covering catastrophe-driven risks, we work seamlessly with you and our specialty carriers to create individual account solutions. Add to that our new suite of data and analytics capabilities – Amwins DNA – and we are able to apply a robust, data centric approach to the placement of insurance in support of retail clients and insurance market partners.

Amwins DNA may be a new brand, but the approach is not. These capabilities ensure we find the best solutions for our clients and their insured and enable us to provide client deliverables such as coverage benchmarking, equipping our clients with knowledge and tools their insureds will value.

Contact your Amwins broker to learn more today.

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