Playing the Long Game

Navigating a Fluctuating Property Insurance Market for Commercial Real Estate

Perspectives from Gallagher Real Estate Practice Leaders

Introduction: The Discipline of Playing the Long Game

The commercial real estate insurance market rarely moves in a straight line. In recent years, owners and operators navigated a pronounced hard market marked by rising premiums, reduced capacity, higher deductibles and coverage restrictions at levels that once seemed unlikely.

Today, conditions are shifting. For some buyers, capacity is returning, competition is increasing, and rates are moderating across much of the market, from multifamily and retail to data centers and industrial portfolios.

For experienced risk professionals, this shift is both a relief and a reminder. The clients who performed best during the hard market weren't reacting to change. They stayed disciplined in their data, carrier relationships, retention strategies and long-term planning, regardless of market conditions.

This paper draws on perspectives from Gallagher practice leaders across property, catastrophe modeling, captives, risk financing, loss control and market strategy. Their message is consistent: Decisions made in a soft market shape outcomes when the cycle turns again. Playing the long game means resisting the urge to optimize only for today's environment.

Market Fundamentals

By Martha Bane

Maintaining the Basics

Whether the market is hard or soft, the fundamentals remain the same. Accurate statements of values, strong data quality and active loss control are the foundation of a well-managed program.

The risk in a soft market is complacency. As premiums fall and capacity increases, it's easy to ease off the practices that mattered most when conditions were tight.

Martha Bane, Executive Vice President and Managing Director of Gallagher's Property Practice Group, emphasizes that clients who saw the best results in the hard market had already invested in data quality and carrier relationships. That discipline continues to pay off because underwriters recognize and reward well-managed risks in any market

Expanding Coverage While Conditions Allow

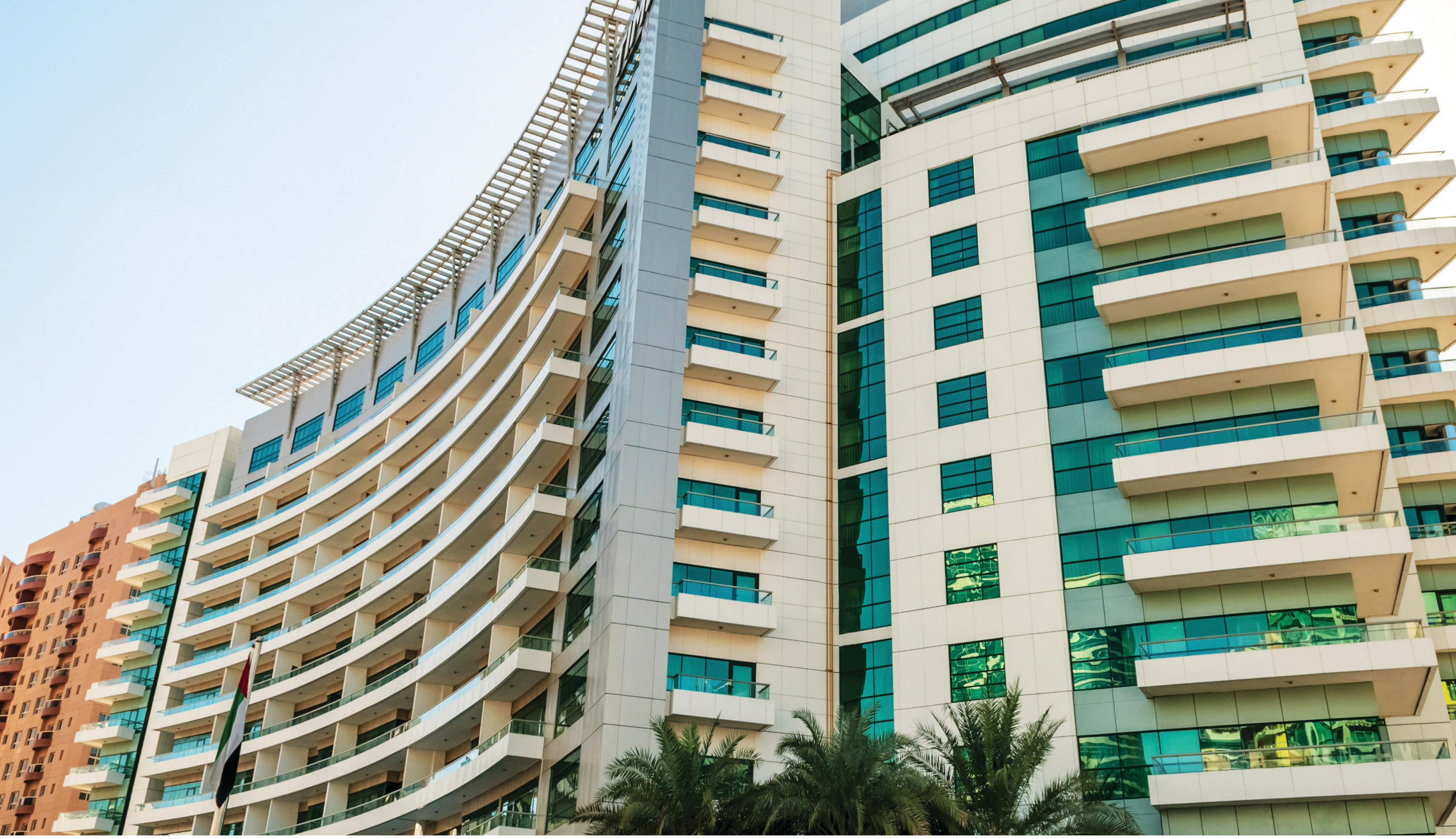
The current soft market presents a genuine opportunity to recover ground lost during the hard market: Lower deductibles, broader coverage terms, reconsideration of previously carved-back coverages and the possibility of multi-year rate agreements. These outcomes don't happen automatically. They require a clear strategy and proactive conversations with carriers about what the market will support today.

It's also important to evaluate the quality of available capacity. Not all options are equal. Programs that look competitive on price can carry hidden risks, such as shared limits, weaker paper or untested performance in catastrophic events. Understanding the structure behind the coverage matters as much as the premium itself.

This is also a good time to revisit alternative risk transfer strategies. Parametric structures, which pay on the occurrence of a defined triggering event rather than on actual documented loss, can complement traditional property coverage in ways that are particularly relevant for real estate portfolios with geographic concentration or catastrophic exposure that is difficult to price in conventional markets. Captives and other alternative risk transfer vehicles deserve similar review, not because they are always the right answer, but because the cost of exploring them in a favorable market is low and the cost of not having considered them when conditions shift could be considerably higher.

"When capacity is abundant, the market is flush with options that look identical on a quote sheet but perform very differently when you need them most."

Martha Bane
Executive Vice President and Managing Director
of Gallagher's Property Practice Group



Deductible Strategy

By Jimmy Clark

Deductible decisions are not simply a function of how much risk a buyer wants to retain. They are a statement about how efficiently that buyer is deploying capital relative to the cost of risk transfer in the open market.

Jimmy Clark, Senior Vice President and Executive Director of Gallagher's Real Estate & Hospitality Practice Group, frames the current environment this way: the cost of capital is low, insurance premiums are falling, and the return periods for deductible buy-downs are unusually favorable, in some cases approaching one-in-one-hundred-year events. In that environment, it is often more efficient to pay a modestly higher premium and transfer more risk to a carrier than to retain exposure through a high deductible, particularly for smaller or single-purpose entities where a large retained loss would create meaningful financial disruption.

During the hard market, many buyers had no choice but to accept higher deductibles to manage premium increases. Now, those same buyers can negotiate those deductibles back down.

The ability to do so and to use carrier competition to secure more favorable terms depends in part on program structure. Shared and layered programs, which distribute risk across multiple carriers, introduce competition that single-carrier arrangements cannot replicate, and that competition often produces better deductible options and coverage forms.

> "In today's market, it is often smarter to use the insurance carrier's capital rather than your own. The pricing supports it."

Jimmy Clark
Senior Vice President and Executive Director of
Gallagher's Real Estate & Hospitality Practice Group

Probabilistic Catastrophe Modeling

By Warren Hopper

For most commercial real estate owners, catastrophe modeling has historically been a carrier requirement: A technical exercise conducted to satisfy underwriting demands during renewal. That framing significantly undervalues what modeling can do.

Warren Hopper, Vice President and Catastrophe Modeling Analytics Manager, describes the evolution he has seen in how sophisticated clients use this tool. In a hard market, robust modeling is a competitive differentiator. Carriers facing constrained capacity become highly selective, and the "flight to quality" means that a well-documented, accurately geocoded, comprehensively modeled portfolio will attract more carriers and better terms than one that relies on basic or outdated data. Hopper has seen a significant expansion in the number of carriers willing to quote on an account by deploying a more complete and accurate dataset.

Maintaining Data Quality as Markets Soften

In a soft market, the relationship between data quality and pricing outcomes is less direct, as carriers compete more aggressively and some overlook data gaps to win business. But the reputation and discipline established through rigorous data management continue to pay dividends: underwriters remember which clients they can trust, and that trust translates into faster quotes, more favorable terms, and greater access when conditions tighten again.

Modeling as a Capital Allocation Tool

Beyond renewal management, catastrophe modeling is increasingly being used to inform capital expenditure decisions. For real estate owners considering structural improvements, such as roof replacements, wind-hardening measures, and flood mitigation systems, modeling can quantify the expected insurance savings from those investments and calculate the ROI and IRR to justify or complicate the decision to spend. Programs like the IBHS Fortified Roof standard, which exceed basic building codes in ways that meaningfully reduce loss exposure, can be modeled against current building standards to produce a financial stress test: for example, what does spending 2% more on a reroofing project do to projected losses and insurance costs over a 10-year horizon? That analysis changes the conversation from "how much will this cost?" to "how much will this save?"

> "Underwriters consistently prefer clarity and accuracy. That advantage does not disappear in a soft market — it just shows up differently."

Warren Hopper
Vice President and Catastrophe Modeling Analytics Manager

Risk Retention Financing

By Connor Stockbridge and James Bosley

One of the persistent challenges for commercial real estate operators is managing insurance costs that move with market cycles rather than with the underlying performance of their portfolio. Risk retention financing is a structure designed to address exactly that problem.

James Bosley and Connor Stockbridge, who work with clients on retention financing strategies, describe the mechanics this way: Rather than simply accepting whatever retention level the market dictates at renewal, a client works with a financing structure to set a retention level that makes sense for their risk profile and cash flow and then funds that retention formally over time. The insurer provides credit in early years when losses are low, and provides real risk transfer for catastrophic events that exceed the funded retention. Anything outside the agreed limits transfers to the traditional insurance market.

In hard markets, this structure allows clients to push deductibles higher to secure premium discounts while maintaining a funded mechanism to absorb retained losses without disrupting the balance sheet. In soft markets, it allows clients to reduce limits and fund contributions when competitive rates make traditional transfers more attractive. The structure adapts to market conditions rather than being dictated by them.

Retention financing is not appropriate for every buyer. It works best for clients seeking greater control over premium volatility and willing to invest in the long-term discipline required to manage retained risk.

> "Risk retention financing is about taking control of your risk and budget on your own terms, not on the market's."

James Bosley
Executive Director

Captives and Tenant Liability

By Brendan Helt and Sarah Creighton

Captive insurance structures are among the most powerful and most frequently misunderstood tools available to commercial real estate operators. A captive is not a single product. It is a structure that can adapt to a portfolio, capture underwriting profit, formalize retained risk, access reinsurance markets directly and build equity over time through disciplined underwriting.

Brendan Helt, Vice President at Artex, outlines five ways clients are putting captive structures to work:

1 Fronted Programs: Compliance and Economics Together

Many lenders require admitted, A-rated paper. A fronted captive program satisfies both requirements: An admitted carrier issues the policy to meet lender covenants, then reinsures that risk back to your captive. The owner may be able to capture underwriting profit and investment income that would otherwise transfer to the market, which is a meaningful advantage when premiums are concentrated in primary layers.

2 Deductible Buydowns for Cat-Prone Portfolios

Years of underwriting discipline across wind, hail, flood and wildfire lines have left many real estate operators carrying large property retentions with no formal mechanism for funding, pricing or allocation. A captive formalizes that retention, funds it actuarially and layers reinsurance above it, providing direct access to global reinsurance markets on terms tailored to actual exposure.

3 Tenant Damage Waiver Programs

Rather than requiring tenants to source renters' insurance independently, landlords can offer a damage waiver program with fees flowing directly into the captive. Tenant damage claims are frequent but modest in severity, which can create predictable, profitable underwriting that builds captive surplus year over year.

These programs also keep tenant-caused losses off property loss runs.

4 Specialty Liability for Hospitality

Hotels, resorts, restaurants, and event operators carry concentrations of liquor liability, event cancellation, and premises liability that commercial products price against industry-wide experience. Captive structures let operators underwrite against their own loss history, with manuscript reinsurance tailored to actual exposure rather than the market's assumptions.

5 Multi-Year Program Stability

For ownership groups managing assets against long-duration return targets, a well-structured captive provides budget predictability across a planning horizon, independent of annual market fluctuations. That predictability has real value for boards and ownership groups making long-term capital decisions.

> "A captive is not a product you buy. It is a structure you build — one that becomes more valuable the longer and more consistently you manage it."

Brendan Helt
Vice President at Artex

Tenant Legal Liability as the Entry Point

For multifamily operators considering captive structures for the first time, tenant legal liability has become a natural entry point. While owners cannot legally require residents to carry traditional renters' insurance, they can mandate liability coverage. A well-structured tenant legal liability program fills the gap below property deductibles, typically covering losses up to $100,000 caused by tenant negligence, while generating ancillary income that has become the largest driver of revenue from market-rate properties.

Sarah Creighton, Vice President of Alternative Risk Strategies, recommends that operators reach approximately 5,000 doors or beds before transitioning to a captive structure, as that scale provides sufficient premium absorption to offset annual losses and meet regulatory approval standards. The typical path: start with a fully insured tenant liability program, achieve approximately 80% absorption, and then transition to a protected cell or single-parent captive once consistent premium income is established.

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Captive insurance is a long-term strategy, not a quick profit solution. The operators who benefit most are those who plan carefully and manage it as a business.”

Sarah Creighton
Vice President of Alternative Risk Strategies

Long-Term Agreements

By Nigel Holland

For commercial real estate operators whose investment theses depend on long-duration return projections, insurance cost volatility represents a meaningful risk that can erode net operating income and complicate asset valuations in ways that are difficult to model and harder to explain to investors or lenders.

Multi-year deals, rate guarantees and long-term agreements (LTAs) are mechanisms designed to address exactly this risk. Nigel Holland, UK Managing Director, explains that these structures have historically been most common in the public entity sector, where budgeting across fiscal years requires premium certainty. Real estate operators are increasingly seeking the same protections.

The strategic logic is straightforward. A two- or three-year rate lock can provide some protection from future market volatility, capturing today's rates and insulates the client from a potential cycle of market hardening, including premium increases, restrictions on terms, reductions in capacity and the time and relationship capital required to navigate a difficult renewal. The value of that certainty extends beyond the premium line: it protects NOI projections, supports asset valuations, and provides boards and investment committees with a planning horizon that annual renewals cannot offer.

Strategic Considerations

Not all of a program needs to be locked in under a multi-year structure. Holland frequently recommends that clients lock in a portion of their program while leaving the remainder on annual terms, creating a hedge that maintains competitive pressure on the locked portion while preserving flexibility. Critically, multi-year agreements are not offered to all buyers. Carriers offer them to clients they trust — clients with established relationships, clean loss records and a demonstrated commitment to honoring agreements even when market conditions might make it tempting to shop.

Real estate operators who want access to multi-year structures need to build for them: invest in carrier relationships across multiple markets (US domestic, Lloyd's, European and Bermuda), maintain program discipline, and engage carriers as partners rather than as vendors. The relationships built in a soft market become the currency that buys access to multi-year agreements and favorable capacity when conditions tighten.

"Underwriters only offer long-term agreements to clients they trust. Breaking agreements when market conditions improve can close doors for years."

Nigel Holland
UK Managing Director

Loss Control

By Mike Bugielski

Premium pricing gets most of the attention in a fluctuating market. Loss control deserves more. The physical condition of assets, the quality of maintenance programs and the robustness of emergency preparedness directly affect loss outcomes, which in turn drive carrier relationships, renewal terms and long-term program economics in ways no amount of market timing can replicate.

Mike Bugielski, Senior Risk Consultant, argues that loss control is not a market-dependent activity. Every client, regardless of portfolio size or current market conditions, should have a comprehensive emergency action plan (EAP) in place that addresses the specific risk profile of their assets (wildfire exposure on the West Coast, hurricane and flood risk in coastal markets, tornado and severe weather risk in the Midwest and Great Plains) and that includes clear communication protocols for tenants, employees, and emergency responders before, during, and after an incident.

Responding to Carrier Recommendations

One of the most consequential and most frequently mishandled aspects of loss control is the response to carrier inspection recommendations. After a property inspection, carriers typically issue a letter with specific recommendations and photos, usually requiring a response within 30 days. Bugielski is emphatic: the worst possible response is no response at all. A lack of response may affect carrier confidence and income cases, contribute to mid-term policy changes, coverage restrictions or non-renewal.

Best practice is to acknowledge the recommendations promptly, address simple and low-cost items immediately (what Bugielski calls "quick hardware fixes") to demonstrate responsiveness, and communicate a clear plan for more complex or capital-intensive items. Gallagher's risk control team works directly with clients to draft initial responses, prioritize actions and develop multi-year roadmaps for addressing longer-term recommendations.

The relationship between loss control and carrier relationships is not incidental. Carriers remember which clients treat their recommendations seriously. That institutional memory shapes how underwriters approach renewal negotiations, capacity allocation decisions, and the willingness to offer long-term agreements.

"A lack of response may affect carrier confidence, and income cases, contribute to mid-term policy changes, coverage restrictions or non-renewal."

Mike Bugielski
Senior Risk Consultant

Conclusion: What the Long Game Actually Requires

The commercial real estate insurance market is in a favorable moment. Capacity is abundant, rates are moderating and buyers have real leverage in renewal negotiations for the first time in several years. For operators who have maintained discipline through the hard market — in their data, their carrier relationships, their retention structures and their physical asset management — current conditions may create opportunities to revisit deductibles, broaden coverage, lock-in long-term rate certainty and alternative risk structures that will continue to build value across cycles.

For operators who relaxed that discipline when conditions softened before, this is a moment to rebuild. The cycle will turn again. The underwriting fundamentals, modeling rigor, captive structures and carrier relationships built or neglected today will determine what options are available when it does.

Playing the long game in commercial real estate insurance is about building the practices, relationships and structures that perform across every phase of the cycle so that when conditions change, the response is strategic rather than reactive.

Key Actions for Commercial Real Estate Operators	
Maintain data quality	Accurate statements of values and robust geocoding drive better carrier engagement in every market condition.
Review deductibles now	Use favorable return periods and carrier competition to reduce retentions and recapture coverage lost in the hard market.
Use modeling strategically	Apply catastrophe modeling to capital expenditure decisions, not just renewal management.
Consider long-term rate locks	Multi-year agreements provide NOI protection and access certainty that annual renewals cannot offer.
Evaluate captive readiness	At sufficient scale, captive structures can capture underwriting profit and build equity across market cycles.
Respond to carrier recommendations	Timely, documented responses to inspection findings protect relationships and renewal terms.

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