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# Real Estate and Hospitality Market Update

Q3 2020



# Overview

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Real estate and hospitality is a vast universe of asset classes, operations, exposures and risks that is now dealing with substantial insurance rate increases in every line of coverage outside workers' compensation.

Premiums are going up, and coverage and limits are being cut due to increases in claims activity and actuarially driven models. Add in a pandemic, which has crippled hospitality and retail, slowed leasing to a crawl, and shut down development, and you have an economic crisis that is forcing organizations to take higher deductibles, buy lower limits and seek alternative forms of risk financing.

In the first quarter of 2020, property and casualty insurers saw a \$75.9 billion drop in surplus, the largest ever quarterly decline. According to Verisk and the American Property Casualty Insurance Association, this drop sent surplus levels down to \$771.9 billion, matching levels from 2018. This drop was primarily caused by investment income losses and did not reflect the expenses incurred related to any COVID-19 claims. As noted in a July 29 Advisen article, the property and casualty industry is safely capitalized; however, many insurers are taking reserves for claims costs related to COVID-19. As one senior insurance executive stated, the expense cost to investigate and respond to a COVID-19-related claim is \$5,000 to \$10,000 without considering payment of a claim. As of August 1, there are over 1,000 lawsuits related to COVID-19 business interruption, and the expectation is that litigation will continue for years.

The following pages focus on rate increases and market conditions as stratified by asset class. Hospitality and multifamily markets have been most impacted due to the ongoing nature of property and liability claims, while the professional liability market is now cutting limits and pressing for double-digit rate increases for Directors & Officers (D&O), employment practices and Errors & Omissions (E&O). The one bright spot is cyber, which continues to grow in capacity.

In essence, all market indications point to a continuation of premium increases for the balance of the year and through at least the first quarter of 2021. The outcome of this relatively active hurricane season also will have an impact on the property market, and whether or not Congress passes both legal limitations for COVID-19 claim. A similar Terrorism Risk Insurance Act (TRIA) pandemic insurance program is still open for debate. Need we point out the obvious: These are not normal times.





# Professional Liability Update

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In 2019 and the beginning of 2020, rates for professional liability insurance for real estate had already begun to increase due to historically low premiums, low interest rates (suppressing insurers' ability to earn other income) and an increase in losses, mostly in publically traded D&O liability. Real estate companies generally paid the lowest premiums compared to other financial institutions and commercial companies because of their relatively low claims as a result of consistent performance. By the end of 2019, most real estate companies experienced increases in the range of 5% to 15% due to overall industry trends.

COVID-19 and the resulting shutdown has hastened premium increases, reduced carrier competition, decreased insurers' desire to write new business and, overall, caused a hardening market to shift to a hard market. Moratoriums on rent payments created volatility and uncertainty in real estate performance that shifted real estate exposure from low to medium or high, depending on asset class.

In Q2 2020, most retail or hospitality real estate experienced rate increases in the range of 25% to 75%, and most commercial, residential and industrial experienced rate increases in the range of 20% to 50%. Carriers remain intensely focused on underwriting discipline, ensuring they secure the right terms and pricing on certain lines of coverage that have historically not performed from an underwriting standpoint. As a result, we continue to see extreme differences in how the market is responding between classes and sizes of business.



# Current Marketplace Overview by Line of Coverage

## D&O LIABILITY

- Market characterization: hard market.
- Public companies experience the largest rate increases, in the 25% to 75% range.
- Private companies rates increased in the range of 15% to 50%.
- Insurers may reduce capacity limits offered and increase self-insured retentions/deductibles.
- Asset classes most impacted by COVID-19 experience the largest increases.
- Premium for excess limits is increasing by a larger percentage than the primary insurance policy.

## EMPLOYMENT PRACTICES LIABILITY (EPL)

- Market characterization: hardening.
- Layoffs and furloughs have caused rate and retention/deductible increases above the end of 2019 in the wake of the #MeToo and Time's Up movements.
- California remains the highest risk state, and rates and retentions deductibles are increasing, with \$250,000 generally a minimum retention/deductible.
- Most insureds will experience rate increases in the 5% to 20% range, and possible retention/deductible increases.

## CYBER LIABILITY

- Market characterization: stable.
- Capacity remains abundant, with many insurers still seeking to grow their books.
- Increased ransomware and social engineering claims have put some pressure on rates, especially for larger companies (more than \$1 billion in revenue).
- Real estate is considered a desirable class of business, and most insureds will experience flat to 10% increases in rates.

## CRIME

- Market characterization: stable.
- Increased social engineering losses have put some pressure on rates.
- Excess social engineering coverage is available over primary sublimits (generally in excess of \$250,000).
- Most insureds will experience flat to 10% rate increases.

## E&O LIABILITY

- Market characterization: stable to hardening.
- Rating basis is historical revenues, so premium increases are to be expected based upon exposure rating basis growth.
- The real estate E&O market continues to be limited, with approximately 10 insurers writing this type of policy with very limited appetite for development exposure.
- Few insurers (Hiscox, Argo) can offer a development E&O policy that tends to be more expensive compared to a typical real estate E&O policy, but also has broader coverage.
- Chubb used to be a large insurer in this type of policy but has pulled back significantly, and generally is not a market for real estate E&O going forward.

# Key Asset Classes

As the property and casualty markets react to the dramatic changes brought on by the COVID-19 pandemic, key asset classes—large commercial offices and single-family homes (SFH)—have been sent reeling by unprecedented rate spikes, more restrictive terms and conditions, and increasingly severe claims that show no signs of slowing down through the end of 2020 and beyond.



# Large Commercial Office

## PROPERTY

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**Edytte Arakelyan**, Edytte\_Arakelyan@ajg.com

As the property market shifted from firming in Q1 to a hard market in Q2, the rate spikes have accelerated for all asset classes, including commercial offices. Office assets with favorable loss history are seeing average rate increases of 15% to 25%, while portfolios with losses are seeing increases in excess of 25%.

Though commercial offices are still considered the more favorable asset class, the rise in frequency and severity of water damage claims are causing underwriters to impose higher deductibles. Hurricane and flood deductibles that were reduced during the soft market period are now being revisited as well. Due to COVID-19 restrictions, commercial offices remain largely vacant across the country, and underwriters are requesting more loss control information to mitigate potential claims. As insurance carriers seek to return to profitability, we expect the push for rate increases to continue with more restrictive terms/conditions, including vacancy limitations and protective safeguards.

## CASUALTY

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**Susan Patelson**, Susan\_Patelson@ajg.com

The commercial office asset class is experiencing rate increases for the first time since 2008 and 2009, right after the Great Recession. These increases stem from an increased frequency of severe claims. Claims that used to close out at \$75,000 are closing out in the six-figure range. In addition, assets in New York City are receiving increases due to the New York Labor Law, which adversely impacts property owners.

Since January 1, 2020, office assets have experienced an average rate increase in the primary general liability of 12% to 15%. The average umbrella rate change has been more severe, at about 54%. The overall average rate change for a primarily office portfolio is 25%. In addition to rate increases, we are seeing exclusions for communicable disease as well as construction, with the exceptions of maintenance and non-structural renovation. Exclusions in an umbrella and excess tower for any structural construction calls for additional conversations with clients regarding contractual risk transfer and/or separate programs to protect owners during development. This could potentially exclude cap ex projects that are structural in nature as well as ground-up developments.



# Single-Family Homes

## PROPERTY

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**Chris Schoeneborn**, [Chris\\_Schoeneborn@ajg.com](mailto:Chris_Schoeneborn@ajg.com)

While carrier appetite for single-family rental (SFR) portfolios remains strong, rates have risen for a second consecutive renewal cycle. On average, property rates have climbed 10% to 20%, depending on the size of the portfolio and amount of earthquake, flood or Tier 1 wind limits purchased. Excess layer rate increases for portfolios with Tier 1 concentrations have accelerated more quickly than in the primary layer, as many excess markets cut their line sizes seeking higher returns on their capacity. From a loss perspective, the SFR asset class has performed better than average, as most operators carry a deductible equal to the average value of a single home, reducing attritional (i.e., fire) claims and further differentiating the asset class from other habitational classes. Global property market support for SFR portfolios continues to grow while the appetite for multifamily constricts.

## CASUALTY

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**Chris Schoeneborn**, [Chris\\_Schoeneborn@ajg.com](mailto:Chris_Schoeneborn@ajg.com)

Unfortunately, casualty renewals haven't fared as well as property. The 24/7 exposure for residential risks has fueled claim activity and added stress on the umbrella market. A select number of retail markets continue to write general liability for single-family portfolios and require large retentions, forcing smaller owners to the excess and surplus market, and driving double-digit rate increases. Over the past quarter, the umbrella market has hardened considerably, often yielding renewal rates in excess of 50%.



# Hospitality

## PROPERTY

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The property market in the hospitality space has become increasingly more challenging as we move through the year. The storm activity that we have seen thus far is putting the markets on edge. For accounts with Monroe County exposure, the marketplace is limited, and capacity is not nearly as abundant in the past. Buying top-end excess capacity on a blanket basis is challenging for accounts, especially on those with losses exceeding the values on the schedule.

From a pricing perspective through August 1, we are still seeing rate increases in excess of 25% with CAT exposure, and even higher for those with loss creep from HIM events from their last renewal. Some larger accounts are seeing better percentage increases simply due to the dollar amount of the increases. These increases are coming even at lower declared values, due to the impact COVID-19 is having on business interruption values. Placing accounts with limited traditional CAT exposure (wind, flood and EQ) has been challenging, as well as the smaller portfolios due to updated modeling results and the impact convective storm modeling is having on some of these portfolios.

Beyond pricing, the challenges center on deductibles and terms and conditions. The markets seek to increase the AOP deductibles on hotel accounts to \$100,000 and even higher water damage deductibles of \$250,000, depending on historical loss experience. Convective storm deductibles are under pressure in the central part of the country, as markets are seeking percentage deductibles to address the smaller to midsize losses.

Obtaining concurrent terms across the panel is becoming very challenging, particularly with regard to landscaping, piers, docks and wharves, beach erosion, civil/military authority, and ingress/egress, among others. Markets are seeking to implement sublimits if there were previously none, and either lower or exclude them going forward. Other items, including contingent BI, DICC, utility service interruption, debris removal and loss adjustment expenses, are also being scrutinized in terms of how much coverage will be granted.

While there is capacity available in both the domestic and London marketplace, there has been an increase in leader changes in London. We have also seen more traditional U.S. primary market capacity being utilized in excess positions to complete programs.

## CASUALTY

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**Rich Clark**, Rich\_Clark@ajg.com | **Sean Murphy**, Sean\_Murphy@ajg.com

Primary general liability markets are continuing to look at restricting terms—Legionella, communicable disease, and abuse and molestation, among others. Most markets are adding a communicable disease exclusion to the general liability programs, but this can be negotiated with some underwriting information on what controls the hotels have in place to address COVID-19 safety measures.

From a pricing perspective, some markets are agreeable to switch the rating basis to revenues in lieu of rooms, which is allowing for pricing decreases while the markets are still seeking rates. The rate amount is dependent on loss experience.



## UMBRELLA

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**Rich Clark**, Rich\_Clark@ajg.com | **Sean Murphy**, Sean\_Murphy@ajg.com

Capacity remains very challenging with insurers continuing to cut back how much they will deploy and where they will deploy in the tower. Even programs completed toward the end of last year are seeing early non-renewal notices or conditional notices advising of structure/attachment changes. Pricing on renewals is increasing at a minimum of 20% and, depending on the size of the program, the increases can reach or even eclipse triple digits.

## D&O AND EPL

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**Rich Clark**, Rich\_Clark@ajg.com | **Sean Murphy**, Sean\_Murphy@ajg.com

There are challenges surrounding D&O and EPL for hotel companies even at the management company level. We are seeing markets decrease the capacity they are willing to offer, seeking higher retentions and raising premiums. Beazley is a leading market in this space for EPL, and they are working diligently to get account pricing in line with their rating model to increase retentions where there is claim activity. On a few recent renewals, Beazley has seen EPL claim payouts rise in California as much as 40%. Additionally, they are seeking reduction in force and COVID-19 exclusions, but those can be addressed in some instances with additional underwriting data.



# Regional Overviews

The market is currently in a state of trepidation as we enter the second half of 2020, and when insurers get anxious, there are only three things they can do:

**Increase rates | Restrict coverage | Reduce capacity**

Unfortunately, we are seeing insurers do all three. This is the crux of why 2020 has been so challenging for policy holders: The market is showing no empathy. It's cold, transactional and hard to stomach for many.

Insurers are reeling from poor performance in 2017 and 2018, followed immediately by a mediocre 2019 and now COVID-19 in 2020. The market is desperately trying to stabilize, which means hard choices. These include saying “no” more than saying “yes,” and restricting terms and conditions that have long been viewed as standard offerings in an effort to create stability for insurers. But as they push to reach stability, it comes at a cost that is borne by the policy holder.



# Northwest

Justin Dove, Justin\_Dove@ajg.com

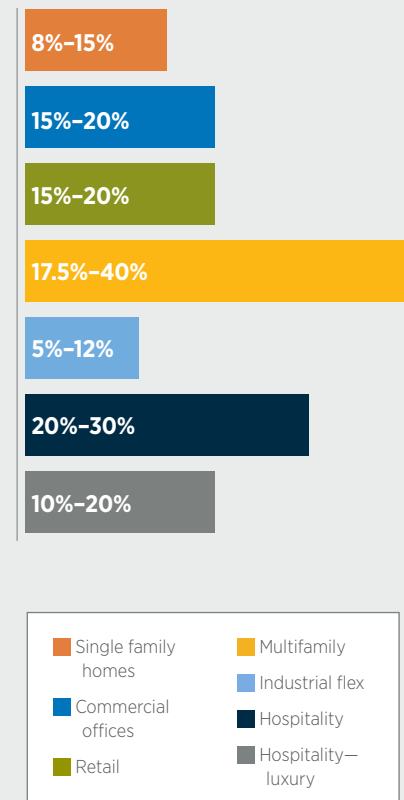
In the Northwest, deals are taking longer to put together, terms are more challenging to balance amongst multiple participants, and this is likely to continue through the end of 2020 and beyond.

- Excess liability renewals can reach double or triple year-over-year pricing, and in between these premium spikes are coverage restrictions.
- The market is pushing property deductibles up, particularly for water damage.
- Carriers are walking back limits previously extended for professional liability, sexual abuse and molestation, and liquor liability.
- Where insurers would traditionally extend \$10 million of capacity on an excess liability placement, in 2020 they will offer up half as much.

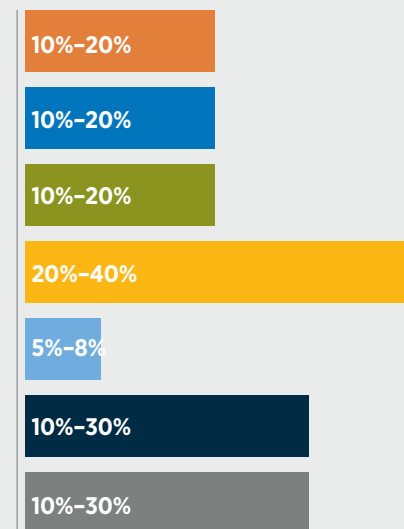
## STATES:

Alaska, Northern California, Idaho, Montana, Oregon, Utah, Washington, Wyoming

## PROPERTY RATE CHANGES



## CASUALTY RATE CHANGES





# Midwest and Great Lakes

**Brian Burg**, Brian\_Burg@ajg.com | **Dan Kilberg**, Dan\_Kilberg@ajg.com

The Midwest is experiencing a challenging insurance marketplace, particularly on property and umbrella/excess insurance, characterized by tightening terms and stark rate increases.

Midwest-based property risk has a large overall concentration in one of two areas: convective storm and CAT-exposed areas, both of which should expect rate increases correlating with the locations of the majority of their assets.

Larger portfolios in the Midwest—particularly in multifamily, where a syndicated program is already being utilized—are experiencing tightening of terms and larger rate increases than their peers utilizing a single carrier regional placement.

Regional developers and owners keeping their portfolios close to the core Midwest and Great Lakes states have been least impacted by the hardening market. For the regional carriers who continue to write small to midsize Midwest risk, low to middle double-digit increases are normal, assuming a loss ratio of 35% or less.

Where it makes sense for our clients, we utilize a strategy of bifurcating portfolios to achieve the best terms and conditions in various markets, which creates additional administrative burden to clients in some cases, but allows us to create an optimal program in each region based on their needs.

The same applies to umbrella: In the multifamily space, most large excess underwriters have moved to a \$5 million or \$10 million attachment point, making the lead umbrella placement more difficult and expensive. On the small to midsize regional portfolios, package carriers have picked up the slack and are offering \$5 million or \$10 million lead options for multifamily to fill that gap in some cases.

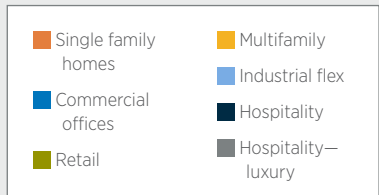
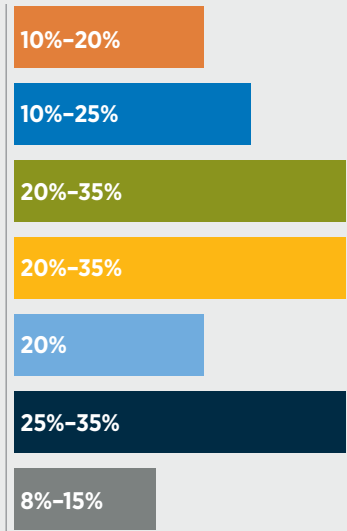
## Benefits of Parametric Insurance Coverage

Parametric insurance is a good example of an opportunity to address key risk areas outside the traditional scope of property and casualty as a means to protect against the kind of non-property-damage business income losses that many organizations have experienced or continue to experience due to COVID-19. Up to this point, these types of losses have largely not been covered by traditional property/business income policies. In addition, the use of captives as a means to fund deductibles or even gain direct insurance to the facultative reinsurance market are once again gaining popularity, but the focus of risk tends to be outside of the Midwest.

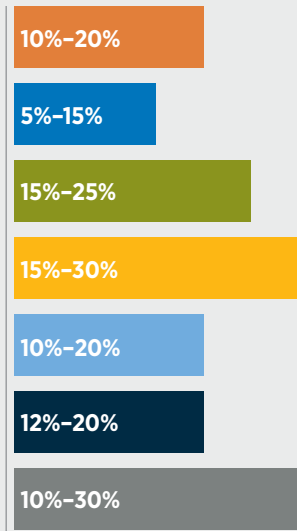
### STATES:

Iowa, Illinois, Indiana, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

### PROPERTY RATE CHANGES



### CASUALTY RATE CHANGES



# Northeast and Mid-Atlantic

**Maggie McIntyre**, [Maggie\\_McIntyre@ajg.com](mailto:Maggie_McIntyre@ajg.com)

In the Northeast, the market is congested by a backlog of submissions. Accordingly, underwriters have limited desk authority and refuse to elevate any risk management until all terms and conditions are met because the timelines for finalizing deals has lengthened considerably.

- Water damage has surpassed fire as the most common and costly liability in the region, drawing water mitigation technology offerings from Chubb, Hartford and Zurich. There is a push for higher water damage deductibles in all asset types.
- The 2020 hurricane season has also raised underwriters' concerns, with granular focus on wind modeling and decreased willingness to offer meaningful wind capacity.
- The excess casualty market is currently extremely harsh for policy holders and insurers alike.
- There is a rush to understand and mitigate future claims based on the immediate and long-term effects of COVID-19.

## STATES:

Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, Washington D.C., West Virginia

## PROPERTY RATE CHANGES

8%–12%

10%–15%

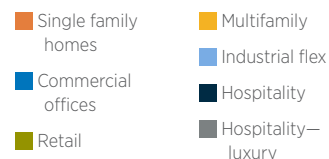
5%–12%

20%

13%–20%

15%

8%–15%



## CASUALTY RATE CHANGES

5%–15%

10%–15%

5%–15%

20%

10%

20%



# Southwest

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The Southwest is currently a highly competitive region experiencing challenges across asset classes, as well as sharp rate increases.

- In commercial office, it is still a very competitive environment for both property and liability. In some cases, with effective marketing and clean losses, we have seen flat renewals.
- Multifamily is an extremely challenging asset class in the region. Carriers are focusing on valuation and loss experience on the property. Rate increases anywhere from 10% to 30% on property.
- On casualty, carriers are underwriting crime scores and loss experience. Social inflation and habitability claims are key issues.
- In hospitality, property side carriers are keeping a close eye on water damage claims.
- Those buying one of the umbrella towers are seeing rate increases of over 30%.

## STATES:

Arizona, Hawaii, Nevada,  
Southern California

## PROPERTY RATE CHANGES

8%–15%

0%–15%

5%–15%

10%–30%

5%–15%

10%–15%

10%–15%

Single family  
homes

Commercial  
offices

Retail

Multifamily

Industrial flex

Hospitality

Hospitality—  
luxury

## CASUALTY RATE CHANGES

15%–20%

0%–15%

5%–15%

15%–30%

5%–15%

10%–25%

10%–25%



# Southeast

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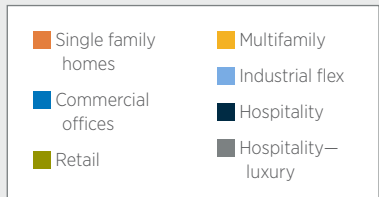
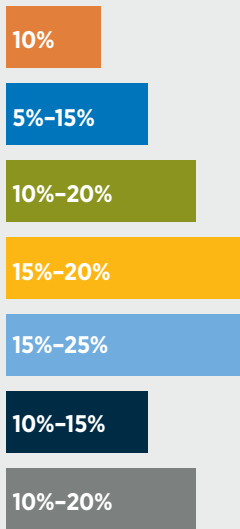
The continuation of catastrophic losses around the U.S. and the world, along with an upgraded hurricane forecast, is forcing carriers to continue their rate increases and reduction in terms.

- In multifamily, nationals have pulled out or take significant rate and deductible increases.
- There are still several regionals (Middle Oak and Greater New York) maintaining relatively flat rate renewals.
- We are seeing the Farm Bureaus and State Farms chasing a sizeable portion of larger portfolios. Historically, these underwriters have been limited to BOPs on smaller deals, but they have recently pivoted and are taking market share at a significant reduction in rates.

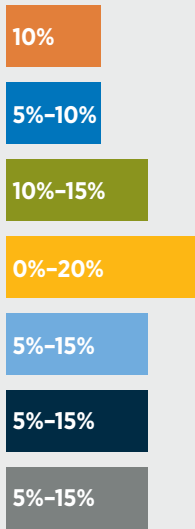
## STATES:

Alabama, Florida, Georgia, North Carolina, South Carolina

## PROPERTY RATE CHANGES



## CASUALTY RATE CHANGES



# Mid-South and South Central

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The Mid-South and South Central markets are collectively experiencing markedly higher property and liability rates, as well as higher percentage wind/hail deductibles and building replacement cost values.

- Notable focus on loss control and compliance across both regions with recommendations emerging prior to quoting a property risk.
- Umbrella market for multifamily remains tight; currently dominated by programs and surplus lines carriers.
- Most importantly: Not all programs are the same, which is why it's necessary to be on the lookout for shared limits.

## STATES:

Arkansas, Colorado, Kansas, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, Tennessee, Texas

## PROPERTY RATE CHANGES

15%-20%

5%-10%

10%

15%-20%

10%-20%

15%-20%

15%-20%

Single family homes

Commercial offices

Retail

Multifamily

Industrial flex

Hospitality

Hospitality—luxury

## CASUALTY RATE CHANGES

15%-20%

5%-8%

5%-10%

15%-20%

5%-8%

10%-15%

10%-15%

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Get in touch with our team to learn more.



Insurance | Risk Management | Consulting

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