2022 Q2

# State of the Property Market

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The Fourth of July holiday has passed, and by now Americans should have recovered from pounding down 150 million hot dogs in honor of the country's independence—enough frankfurters to go from D.C. to Los Angeles over five times. And while the summers slip by faster every year, there's still time to catch fireflies, go to the beach, roast marshmallows and savor a root beer float.

From a property insurance standpoint, nothing is getting any easier. The volume of business that continues to work its way into the excess and surplus (E&S) arena is staggering. It feels a bit like the insurance community is suffering from the same supply chain issues that other organizations are dealing with, because most underwriters and brokers will tell you that keeping pace with the volume of business that comes across their respective desks continues to be a major struggle.

At this point in the year, my single biggest bit of advice would be to get as far ahead of renewals and new business opportunities as you can so underwriters have ample time to assess the risk and provide the options that clients want to see. Nothing is easy, and the more time the brokerage community has to work through various methods of risk transfer will ultimately make everyone's life a little less stressful.

My other bit of advice would be to continue to exercise some realism and remember that we are still a ways away from being in a "buyers' market." Stressing carrier and client partnerships should continue to be a major focus for clients who have spent time fostering those relationships over several insurance renewal cycles.

## WHAT'S DRIVING THE PROPERTY MARKET IN 2022?

As we move forward throughout the rest of 2022, let's recap some of the key themes or takeaways that have driven the market year to date (many of which we have discussed before).

- Valuations/Replacement Cost: If there was a 2022 buzzword, then "insurance to value (ITV)" and "valuation method" would certainly be it. The insurance carrier reckoning with clients who are not adequately valuing their properties has finally happened, and this is the first item that all carriers want to address and discuss as part of a new business opportunity or a renewal submission. Long gone are the days where this was just another underwriting criteria to evaluate in a rating tool. In today's market, clients who don't have the right values are seeing margin clauses, scheduled limits, and in some cases, they are seeing declinations from markets who don't feel the client is taking the matter seriously.

  For some clients, this is not an issue because they have continuously kept up with the market on increased valuations over time. Others have several years of neglect and are now in catch-up mode, where even a 100% increase in replacement cost is likely still below the level needed to support accurate reconstruction costs in various geographies.

- Wood Frame Builders Risk: With increased construction costs, the need for more capacity is pushing the limits on what is available in the market. On top of that, we continue to see carriers scaling back on mid- to high-crime score areas as well as areas where there is brush zone exposure. Urban areas with social unrest, high crime and population density are being selectively underwritten which is leaving clients with very limited markets and rates well above the mean.

  On top of limited capacity and increased rates, markets are being very selective on terms and putting low sublimits and high deductibles on water damage-related coverages. Site security on these high-risk projects is one of the main items that carriers need to get sorted with clients before a risk can be bound and in some cases, the site security can cost hundreds of thousands of dollars. This is truly a "take it or leave it" market where carriers are leaving clients very few choices and very few options.

- CA Wildfire/Brush Zone Business: As I have said before, we don't need to have a conversation about global warming but we can certainly agree that most people and especially the underwriting community agree that the climate is changing. Carriers are now spending a lot of money on trying to integrate changing climate patterns into their underwriting models.

  When it comes to wildfire and brush zone exposure, states continue to adjust their maps which continues to push standard carriers out of the market, forcing clients into the E&S world where some will see a market price adjustment that could range from 100% to 500% up.

  On top of that, E&S carriers are now closely watching aggregate accumulations and are cutting back capacity on both new and renewal business to better manage cumulative exposure. What we are now seeing is a sheer lack of ability to secure north of $100 million of market capacity on single-location risks and we are also seeing clients who cannot afford the capacity that is available to them, requiring many to take quota share self-insurance positions within their program or buy lower loss limits, which ultimately does not leave them adequately protected to catastrophic loss.

- CA EQ/DIC: This is among the most stable markets where clients continue to see capacity available to them and pricing is still competitive. Some clients are seeing slight reductions and flat renewals while larger clients with more values at risk see mid- to high-single-digit increases. We have seen several decreases in the middle market space this year and even though I would not call it a "buyers' market," I would say that this is one segment of our industry where clients routinely have some options to evaluate.

- Southeast CAT WIND: This is another really frustrating pocket of the market. Capacity is very restricted in parts of South Florida and Louisiana, which is having a major impact on the region. Most carriers are closely watching aggregates, trimming lines, and being very selective on both new and renewal business. As a result, most deals have to be completely restructured and it is safe to say there is no such thing as an easy renewal in this space. New business in FL has been put on hold for some carriers which will make things challenging for any customers who have renewals later on in the year. Rates are averaging well north of national averages in this space as a result of how much new capacity is needed when deals are restructured.

- Large Real Estate: Everyone has a different definition of "large," but generally speaking, clients who have a TIV of north of $750 million and well into the multibillion-dollar exposure base are what I consider to be large real estate clients. These folks are hoteliers, REITS, higher education, and municipal clients. Most of them have seen 4 years of rate adjustment but are starting to see a lot of stability from markets that have stuck with them year after year.

  Clients who have heavily bifurcated layered and shared programs are having a much easier time managing their renewal expectations and are enjoying carrier and client partnerships that have been fostered over the years. Depending on risk characteristics and adjustments to excess layers which are still seeing some major changes, clients in this space are seeing low- to mid-single-digit increases when loss experience is favorable. Clients who have seen a few claims ping carrier balance sheets are still seeing stability and increases are averaging 15% to 20% unless there is a major loss that has worked its way into multiple layers.

- Multifamily/Wood Frame Garden Style Apartments: I feel a bit like a broken record every time I talk about habitational business. This is a market segment that has been the "problem child" for as long as I can remember. It is not to say that we don't have a ton of clients that are good owners and operators because we certainly do, but unfortunately, there are far too many stories about poor replacement cost valuations and outsized losses that plague this space. As a result, carriers continue to struggle with their approach to writing this business.

  In general, clients with programs that have a lot of carriers sharing both the primary and excess, good losses, proper valuations, and newer properties are seeing favorable renewals with rate increases in the 5% to 10% range.

On the other side of the equation, you have clients who have horrendous valuations, older properties, and are in tough areas of the country that will continue to see renewal challenges and rate increases well north of 25%. There have also been several programs who have not been able to get their capacity renewed or have had to renew with some severe underwriting changes and in some cases, customers coming out of these programs are seeing rates adjust north of 100%.

## THE ROAD AHEAD FOR THE PROPERTY MARKET

As a general observation, we are still a ways away from market conditions materially improving for buyers. The market is certainly getting easier to predict and expectations are easier to manage, but E&S carriers are still in "selective" mode and standard markets are not looking to set any new business records. Most E&S markets are still not under any pressure to grow and are happy to walk away from risks that don't generate the rate or return on capital they are looking for. I can't even begin to tell you how many markets have said something along the lines of "these are the deductibles and terms I need to support the risk and if that doesn't work, then we are comfortable walking away." It is almost as if I took half the market and put them in a seminar on how to politely tell brokers to go pound sand.

It is a challenging time for carriers, brokers and clients, and even though everyone is focused on creating long lasting partnerships, there are certainly lots of times where the transaction feels about as far away from a partnership as you can imagine. The fact remains, however, that in those cases what has been provided is in fact the only available solution.

As the second half of the year unfolds, we are going to see more of the same. I would expect rates to continue to average 5% to 15% up across multiple asset classes and all eyes will continue to be on the Atlantic and Gulf Coast to see how hurricane activity impacts the years ahead.

The good news is that with increased rates, better valuations in the market, and favorable deductibles for carriers, many insurance companies can still weather a few storms and make a profit. The market is poised for more carrier profitability in the future and that should continue to give clients relief. At RPS, it is our expectation that this relief will come slowly and will be heavily dependent on some quieter years from a macro insured loss standpoint. We are here for you; please don't hesitate to reach out to anyone at RPS to help you navigate the opportunities in front of you. I wish you all the best as we wrap up the latter half of 2022.

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