FranklinStreet

MULTIFAMILY INSURANCE MARKET UPDATE

PROPERTY & CASUALTY INSURANCE

September 2021

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WE ARE HERE FOR YOU

As you may know, we are currently in the most challenging insurance market in recent Commercial Real Estate history. Well into 2021, conditions in the overall market have not improved and are continuing to tighten. The hard market is substantially impacting the multifamily sector and portfolios with significant losses and low insurable values.

However, It is not all doom and gloom. Premium increases have begun to slow and stability in parts of the property market are starting to resurface. It is hard to tell when significant shifts are going to take place, but this will hopefully mean positive changes for the future.

It is our responsibility as your trusted advisor to provide real-time information on the marketplace and lay the ground work for a more productive pre-renewal meeting when that time comes. We will be well prepared to execute an effective strategy to deliver you the most cost-effective insurance program available in the market.

Please don't hesitate to reach out with any questions, comments or concerns.

Your Franklin Street Team

PROPERTY MARKET

The hard property market traces back to 2017 when the industry was in a soft market with rates at a 15-year low. Property carriers were struggling to underwrite accounts profitably due to an increasing volume of attritional losses from fire, water damage, hail, and wildfire claims. With over $150 billion of insured losses, 2017 and 2018 were potentially the two worst years for the industry. This resulted in carriers to stop writing real estate accounts, reduce their capacity, and increase rates.

Fast forward to today, increases within the property market to further increase Wind/Hail and AOP Deductibles will continue throughout 2021. Expensive Deductible Buy Back policies have many owners forgoing this option to "lessen the blow" of increases. Acquisitions have also become a point of contention between owners and insurance companies. The days of adding a property to a master policy at a predetermined rate is all but over. More and more, we are seeing new purchases placed on individual policies that likely provide significantly lower retentions.

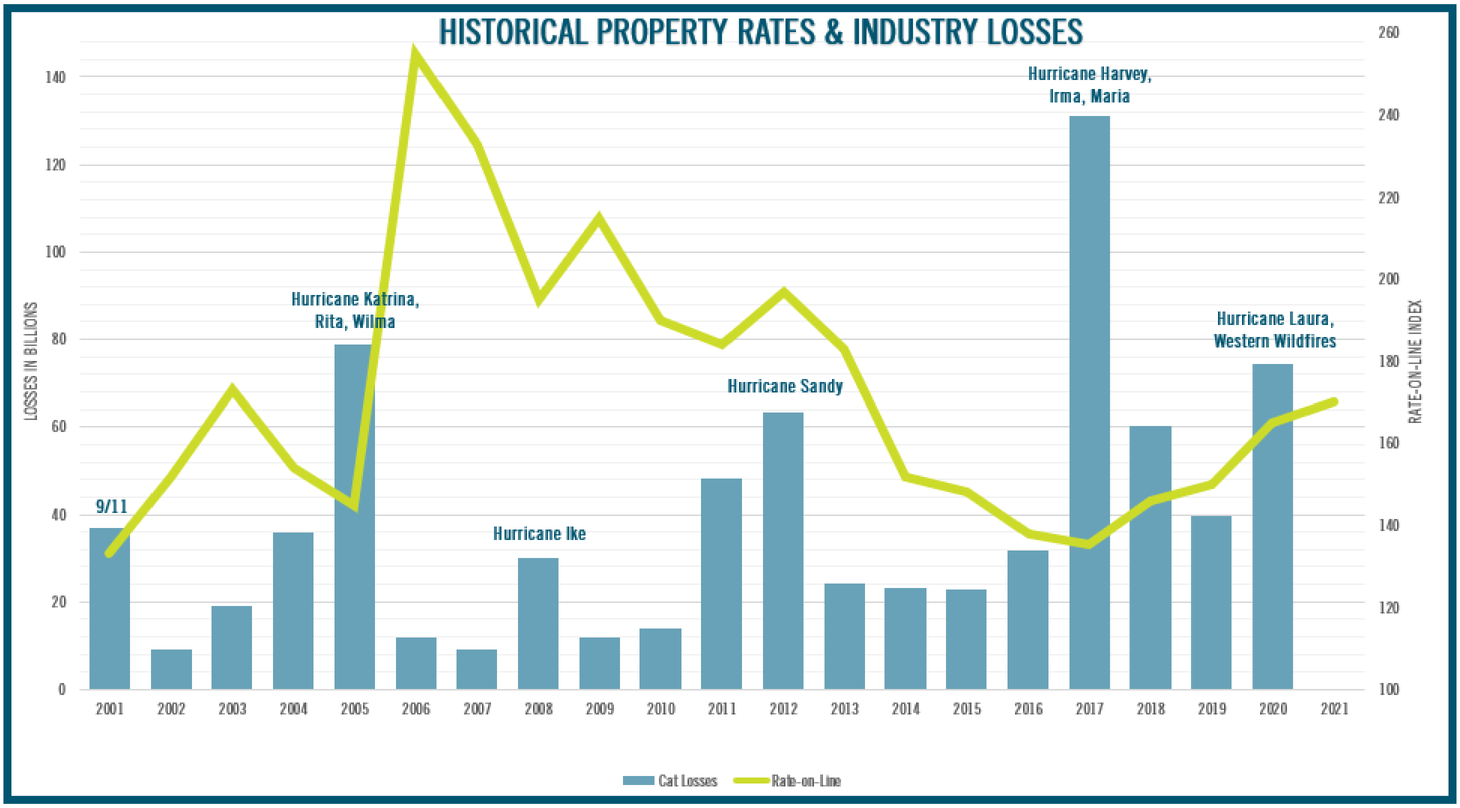
Increased hurricane activity accompanied with Winter Storm Uri, could contribute to further disciplined underwriting with restrictive terms and conditions. With Storm Uri having a loss magnitude of almost $18 Billion in damages (still to be determined), the response from carriers has been significant. These changes have already significantly increased rates and deductibles as well as additional warranties to limit exposures. There has also been a large portion of carriers to complete a pull out of the marketplace completely in the Texas area. In addition to increased All Other Perils deductibles, carriers could impose separate water damage deductibles moving forward. As increased hurricane activity continues, the same responses could follow but are uncertain until the season concludes.

On the bright side, many geographies who have already experienced significant premium and deductible increases over the last few years have begun to plateau. However, the areas of the country who have skated by with minimal impacts may be the next in line to experience the market correction.

HISTORICAL PROPERTY RATES AND INDUSTRY LOSSES

When capacity is in short supply and demand is high, carriers are in a position where they can dictate pricing and terms, resulting in higher premiums, higher deductibles and lower coverage.

The graph below provides a good depiction of why a change in the property market was inevitable, as it compares historical property rates (green line) to insured losses (blue bars). 2021 loss numbers are still to be determined.



LIABILITY MARKET

Excess liability continues to be a huge challenge. Insureds are receiving increases of 100-300% on this line of coverage resulting in owners purchasing lower limits. Some reasons behind these increases include the frequency and severity of rising claims, social inflation, and rising nuclear verdicts. Many of the large jury verdicts we saw pre-Covid have not been determined due to the volume of court cases that occurred during the pandemic. Now that things are slowly returning to normal, the results of these cases and their impact on carriers in the marketplace are unknown.

Exclusions within the Liability Market have been a continuing concern. Carriers are seeking to exclude coverage for Assault and Battery claims and/or exclude coverage for negligent maintenance and management operations (Habitability Exclusion). This “frequency of severity” impairs underwriting performance in both primary and excess casualty (aka umbrella).

Additionally, the biggest factor contributing to the hard General Liability market is the lack of consistency from competitive carriers. Who is the most competitive carrier you might ask? The short answer, there isn’t one. The carriers who are writing multifamily portfolios is a constant revolving door. As liability claims continue to rise, many large verdicts in certain jurisdictions are causing them to leave the market and those who are left are tightening their appetite substantially.

HOW TO OBTAIN THE BEST RESULTS

Carriers are seeking to write the “Best-in-Class” risks, which means a greater emphasis on data and using this data to “change the narrative” within the marketplace. “Best in Class” is a subjective term due to the many factors that are out of an owner’s control. Every portfolio has a story. This narrative can be supported by substantial data accompanied with us advocating on your behalf. This is especially important for portfolios with troubled loss histories.

Focusing on what you can control by implementing recommendations that positively impact your portfolio is crucial. The better and more detailed exposure data on the locations, the better we can negotiate terms. (i.e. Year of updates for roofs, electric, plumbing, HVAC). Carriers are also underwriting based on the operations and investment philosophy of the insured more than ever before. Providing detailed information on ownership experience, risk management, preventative maintenance, investment philosophy, CapEx budgets, replacement reserves, inspection processes, etc., are also extremely important.

Although compiling this level of detail takes time, it will be worthwhile as it will differentiate your portfolio in the marketplace and help you obtain the most favorable result possible.

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INSURANCE SERVICES

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