

REAL ESTATE INDUSTRY GUIDE

Real Estate Manager's Survival Guide in a Hard Insurance Market



Insurance Premiums on the Rise

Prior to the coronavirus pandemic, attritional losses from fire and water damage and catastrophic (or CAT) losses from hurricanes, hailstorms and wildfires plagued the real estate industry, leading to costly claims. For many real estate insurance carriers, these losses far surpassed expected metrics, leading to what the insurance industry refers to as a hard market in which underwriters look to recoup their losses via premium increases during the next renewal cycle.

Then, COVID-19 hit. Real estate owners and operators experienced temporary and permanent facility shutdowns across markets and industries. From commercial buildings to retail shopping districts, industrial and institutional facilities and hospitality venues, vacancies became a reality with additional and significant insurance implications.

Just when the potential long-term effects of the pandemic were beginning to surface, a summer of civil unrest raged across America's urban cities. In some cases, riots and looting led retail outlets to file a third round of Business Interruption, Property or Crime policy claims since the beginning of the pandemic.

Today, as businesses head back to the office and facilities across markets – retail, hospitality venues and educational institutions – reopening cautiously, real estate managers and property owners now face the added expenses incumbent in keeping tenants and their local communities safe from disease.

Prior to the pandemic and civil unrest, the hard market was reflecting increases of 10 to 20 percent for properties with minimal loss history, and upwards of 30 to 40 percent premium increases for properties with poor loss history. In the current climate, these numbers are likely to climb significantly higher.

It has never been more important for real estate owners and operators to strategize with their insurance broker well ahead of their next policy renewal. Enhancing your portfolio's preventative maintenance, considering alternative insurance options and partnering with the right insurance broker will go a long way toward reducing premium costs.

What is a hard insurance market?

It's an insurance industry market cycle that occurs when insurance companies impose tougher underwriting standards and reduce the amount of coverage they are willing to write, causing supply to contract and premiums to rise. It can be caused by a number of factors, including increases in frequency or severity of claims.

Curbing Rising Property Insurance Costs

Don't despair. There are a number of traditional and creative ways you can get ahead of rising premium costs.



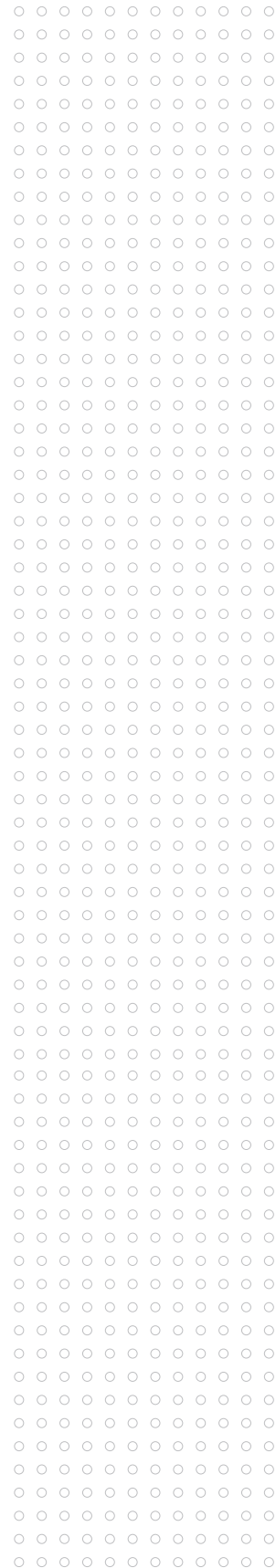
SAFETY FIRST: KEEP YOUR HOUSE IN ORDER

Despite the hard market, you've already got a very powerful cost reduction tool in your tool belt: the ability to control and manage losses internally. Doing so turns your building into a "good risk" in the eyes of underwriters. The real estate owner/operator who controls their own risks in-house is in the best position to weather the hard market storm.

Actively engage in preventative maintenance. Test fire pumps monthly, fix broken handrails and change out electrical panels when they surpass their useful life – to name a few examples. Engaging in regular preventative maintenance keeps your building up to date, which reduces your likelihood of a claim and sends a message to carriers that you've "got your house in order." Domestic water damage has emerged as a major loss leader in recent years, as buildings across the US and Canada age. Know where your shut-off valves are located and how to isolate water leaks to minimize risk. Make sure water pumps, water tanks and other domestic water systems are properly maintained.

Establish an emergency plan. Know how to mobilize building occupants when a crisis occurs – and make sure this plan is officially communicated to your workers in the form of a formal policy. Your emergency plan should take an "all hazards" approach to account for a variety of scenarios, including but not limited to fire, earthquake, flood, windstorm, domestic water damage, pandemic, workplace violence, terrorism, and other location specific risks. Consider the potential for a compound disaster, or a catastrophic scenario in which COVID-19 and a hurricane, wildfire or cyber breach all converge at once. How will this affect your business or facility?

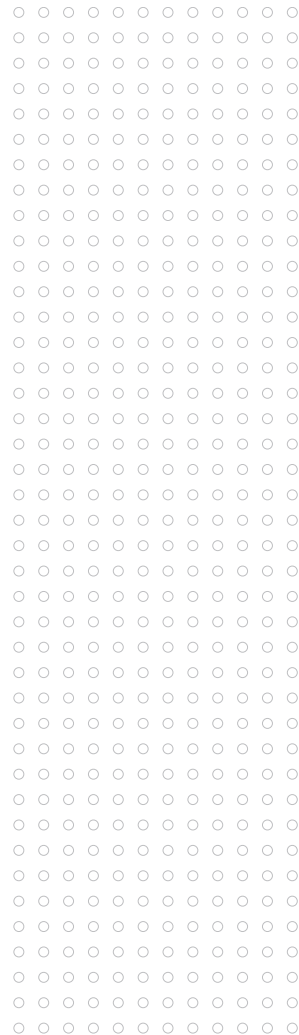
Make sure your entire portfolio – regardless of location – has an emergency plan based on local risks.



Enhance premises safety and security. There are numerous measures that a property owner or manager can take to bolster safety on the property, for employees, tenants, residents, and customers alike. To begin, develop a comprehensive self-inspection and audit program. Train your employees to identify hazards before they cause losses. Consider external security risks and potential perimeter breaches. Utilize cameras, access control and even hire a third-party security team if your property is in a high-crime area or has been the subject of looting. Common real estate losses like slips, trips and falls can affect anyone on your property. Focus on upkeep of parking and common areas and other high traffic spaces.

Reducing the spread of COVID-19 and other communicable viruses across a facility requires increased cleaning efforts, installation of effective barriers and new paths of egress to promote social distancing and enhanced tenant communication to streamline efforts and promote optimal infection control.

Vet all contractors. Ask each vendor to provide you with a certificate of insurance before signing a contract or partnering with them. Request to be listed as an additional insured on their policy, and ask your broker to review their policy. Make sure it doesn't include exclusions that prohibit the contractor from assuming risk when working on your property. Consult with legal counsel when entering into contracts and leases, to ensure that adequate indemnification language is included in your favor. Don't end up paying for someone else's negligence!



CASE STUDY

Creating a Fire Risk Management

CHALLENGE

Years of lint build up caused a dryer fire at an apartment complex in Michigan. As a result, the 48-unit supportive services and low-income development suffered severe damage and risked losing their insurance outright. The development's local property manager brought HUB to the table to create a preventative risk management plan for the property.



SOLUTION

HUB's risk management plan included regularly scheduled maintenance for lint filters, dryer vent ductwork, air circulation and HVAC equipment. HUB was also able to find an insurance solution better suited for the property manager, securing Property and General Liability coverages through an insurance provider that specialized in the affordable housing market.



RESULTS

HUB saved the client 27% in premium and lowered their deductible by \$5K. In addition, HUB placed Directors and Officers (D&O) and Crime policies for the organization, which they didn't have previously.





CONSIDER DIFFERENT INSURANCE OPTIONS

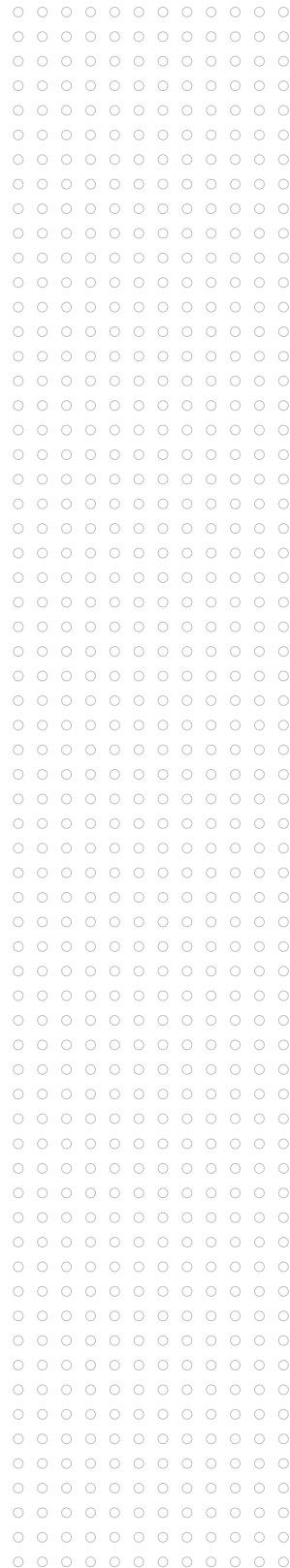
Assume more of your own risk. Increasing your deductible is one way to reduce premium costs. With a high deductible, the business assumes initial losses and claims up to a certain threshold. For businesses with a solid risk management program, increasing the deductible can be a good option.

Layer or bifurcate coverage. Ideal for mixed-use facilities that are over 30% habitational and have retail or hospitality elements, splitting the policy between two carriers based on the risks in each facility can either reduce premium costs or increase limits. When facing reduced limits, single-use or enterprise properties may want to engage multiple policies that add up to your total desired limits, a strategy also known as layering coverage.

Consider engaging in an RPG or captive. A captive is a group of businesses with like risks that purchase liability insurance together by pooling their risk together. Captives, including Risk Purchasing Groups (RPGs) are best for like businesses with minimal risk.

Self-insure if you can. If you've got ample money in the bank and a well-designed risk management program, consider retaining the risk in house by self-insuring parts of your business.

Check for vacancy clause. When a property is vacant for a period of time (30-60 days), the vacancy clause in the property policy can modify coverage from replacement cost to actual cash value, delete vandalism coverage and/or outright cease coverage for all property damage. Triple Net Lease properties are most affected by this. Review your policy with your broker to determine if there is a distinction between "vacant" and "unoccupied" and what it might mean for your facility.





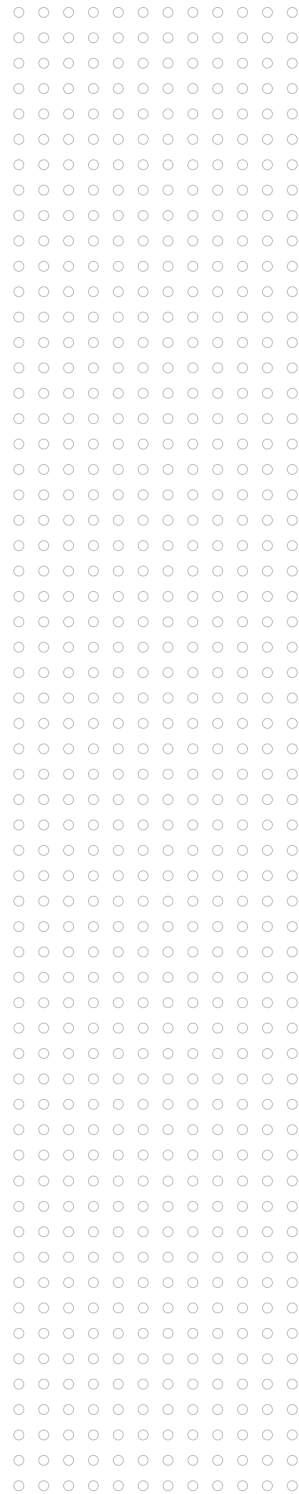
PARTNER WITH A BROKER WHO KNOWS YOUR BUSINESS

You don't have time to become an insurance expert and monitor the market's ups and downs. That's why you need a good insurance broker. He or she should be a real estate industry specialist, helping you plan for renewals and advocating for you with insurance companies. Here are some recommendations from HUB on how to choose and work with an insurance broker:

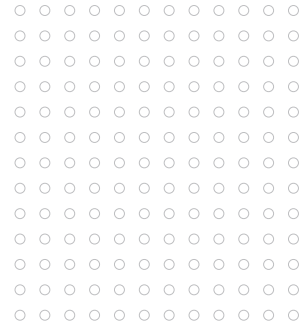
Meet with your broker regularly. Begin planning for your next renewal at least 120 days in advance. Check in with your broker regularly to review your losses throughout the year, especially in the four months leading up to your renewal. Understanding your losses will allow you and your broker to better negotiate the renewal.

Create a relationship with your insurance carrier. A good insurance broker serves as an intermediary fostering long-term relationships between clients and insurance companies. The better they know you, the less likely they are to overreact to negative news. If you try to change insurance carriers every year, it could negatively affect pricing. Develop a strategy with your broker to determine the best time and frequency to test insurance markets

Know your numbers and tell your story. Because insurance underwriters eventually learn about your losses and safety performance, take a proactive approach and be upfront about the strengths and weaknesses of your portfolio. Let them know what you're doing to prevent future losses. Make sure you are familiar with your large losses and loss trends so you can demonstrate to the carrier that you understand the root cause. For example, if slips and falls are common across your properties, be prepared to talk about what you're doing to prevent them in the future.



Report losses in a timely manner. Manage the claims process for all lines of insurance and any size claim. Report all claims in a timely manner and keep good documentation. When applicable, share video footage of the damage and or actual crime with your carrier. Clean up any damage and board up your storefront, if necessary. Stay in constant contact with the insurance company and your broker to achieve best case outcomes. The goal is to ensure that your claims are resolved as quickly as possible and at the lowest possible cost to you.



CASE STUDY

Turning Disaster into Savings

CHALLENGE

A hotelier had an unresolved water restoration claim resulting from a burst pipe that left their ballroom soaked. Months later, the business' broker and adjusters hadn't moved on the hotel's property claim, and restoration was at a standstill.



SOLUTION

As its new broker, HUB stepped in and advocated on behalf of the hotel owner to the insurance carrier, specifically their need to adhere to their chain's aesthetic standard during the renovation, which had ultimately cost more than the initial adjuster's estimate.



RESULTS

HUB helped the hotelier resolve the claim and soon after, the damaged areas were completely renovated as desired. HUB then conducted an audit of the company's coverages, which led to consolidating umbrella policies, higher coverage limits and a significant annual premium savings of \$20,000.





CHECKLIST

Choosing the Right Insurance Broker

You want to get advice from people who understand your business and know your industry. Before choosing your insurance broker, be sure to ask these important questions

- How long have you been involved in the real estate industry?**
You don't want to be the first. Your business is risky enough.

- What percentage of your book are clients like me?**
You want to confirm that your broker spends the majority of his or her time in your industry and understands emerging trends and issues that could impact your business.

- How many insurance carriers can you bring to the table?**
Not all brokers have access to specialty insurance companies who serve the real estate/property market. It's important to align with a brokerage firm that is in good standing with carriers and has the best chance of securing optimal coverage and pricing for your business.

- In addition to property insurance, what expertise and services do you offer?**
Your broker should introduce you to certified risk managers who know your industry and can help you address safety issues and advise you on technology solutions that are appropriate to your business.

- Can you review my contracts and advise me on risk exposures?**
Experienced brokers will review insurance clauses in all contracts and advise you on changes you should make at no additional charge. They should direct you to attorneys who know your business and can review your other business contracts for liability exposures.

- What experience does your team have when it comes to claims?**
When you file a claim, both your broker and your account management team should be committed to advocating on your behalf with the insurance carrier.

- What other services or expertise can the broker offer?**
Ask if your broker can introduce you to their counterparts in employee benefits consulting. There are so many new ways to support the needs of today's workforce and you need a specialist to advise you on benefits.

As a real estate owner, developer or operator, you'll need an insurance broker who is structured to handle your needs in a seamless manner and avoid gaps in coverage. Working with a single brokerage firm with knowledge and experience on both sides of the border reduces your risk and your administrative workload.

Strategic support that puts you in control

When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. With HUB, you have peace of mind that what matters most to you will be protected — through unrelenting advocacy and tailored solutions that put you in control.

For more information on how to manage your insurance costs, reduce your risk and take care of your residents and employees, contact a HUB real estate insurance specialist.

hubrealestate.com

Ready for tomorrow.

Risk & Insurance | Employee Benefits | Retirement & Private Wealth



This information is provided for general information purposes only. HUB International makes no warranties, express, implied or statutory, as to the adequacy, timeliness, completeness or accuracy of information in this document. This document does not constitute advice and does not create a broker-client relationship. Please consult a HUB International advisor about your specific needs before taking any action. Statements concerning legal matters should be understood to be general observations and should not be relied upon as legal advice, which we are not authorized to provide.

© 2020 HUB International Limited. All rights reserved

