

# MULTI-FAMILY MARKET UPDATE



While the hard market is not over for multi-family, there is moderation in rate pressure and restrictive coverage terms for most lines. Carrier guidelines are becoming more fragmented by asset characteristics and location, as underwriters scrutinize every account in an effort to shore up losses in their habitational books. Aligning portfolios with the most competitive carriers and program structure must be evaluated on a case-by-case basis. In some instances, bifurcating portfolios has proven to be a favorable approach.

## PROPERTY

Approximately 12 years of soft market conditions (rate reductions, broad coverage terms, lower retentions) existed from 2006 to 2018. The persistent soft market turned into a hard market in late 2018 due to underwriting losses experienced by many carriers. Many carriers took broad stroke underwriting approaches because of poor performance; either pulling out of the market completely or raising rates across the board. Capacity exists for multi-family, but only at higher rates and less favorable terms as compared to the market prior to 2018.



### UPDATE ON REINSURANCE

Reinsurance rates continued their upward trend during the mid-year renewals. However, there are signs of the market starting to stabilize for a multitude of reasons. Sustained rate increases, improved investment performance, moderate catastrophe losses in 2021, and a robust economic pickup have led to favorable Q1 results for reinsurers. The most recent renewals represent a glimmer of hope for a more stable environment at some point in the intermediate term.

### PROPERTY MARKETS VARY BY CONSTRUCTION TYPE



**High Rise/Non-Combustible Construction** – The market for new non-combustible construction remains relatively flat with a healthy number of admitted carriers willing to offer capacity in most regions. Some carriers are pushing higher water damage and wind/hail deductibles. See below for notes about CAT exposed properties.



**Frame Construction** – Signs of stabilization in the property market for frame construction have been noted on many renewals in the first half of 2021 as opposed to the broad stroke premium increase seen across carrier books in prior years. Portfolios deemed less risky are beginning to take a lower percentage of the overall premium increases. The market remains hard for older properties that have not been updated or for portfolios with poor loss performance. Regional carriers and shared limit programs often provide premium relief without giving up important ancillary coverages although many programs have struggled with renewals in 2021. Bifurcating portfolios to fit with fragmented carrier underwriting guidelines has become more common.



**CAT Exposed** – Coastal properties are continuing to see more substantial rate increases. The 2020 hurricane season was one of the most active on record. While the insured losses paid was not necessarily historically bad, carriers view that more as luck because the storms that did make landfall in the U.S. happened to miss the larger metropolitan areas where they would have sustained much more property damage. The 2021 hurricane season is underway, but the next few months will be critical as to the impact for rates for coastal properties moving forward.

## RIISING “FREQUENCY OF SEVERITY” OF CLAIMS



**Weather Related** – The rising frequency of catastrophic weather-related losses triggered the hard market. The U.S. experienced 22 separate \$1BN+ weather related loss events in 2020. In addition to a rough year, 2020 was the sixth consecutive year of \$10BN+ loss events. The numbers for 2021 will be telling as the losses from the Texas winter storm are adjusted. There is optimism that the total losses will be less than the \$18BN estimate noted by many publications shortly after the storm.

### Average Insured Property Losses

2013 - 2016: 28.15 billion

2017 - 2020: 77.45 billion

**175% increase in average annual insured losses between 2013 - 2016 and 2017 - 2020.**

Source: Insurance Information Institute

### Estimated Insured Property Losses, U.S. Natural Catastrophes 2011 - 2020

Year	In dollars when occurred	In 2020 dollars (2)
2011	\$48.4	\$56.3
2012	63.5	72.3
2013	24.1	27.2
2014	23.2	25.6
2015	22.9	25.3
2016	31.6	34.5
2017	130.9	133.1
2018	60.4	62.7
2019	38.7	39.6
2020	74.4	74.4

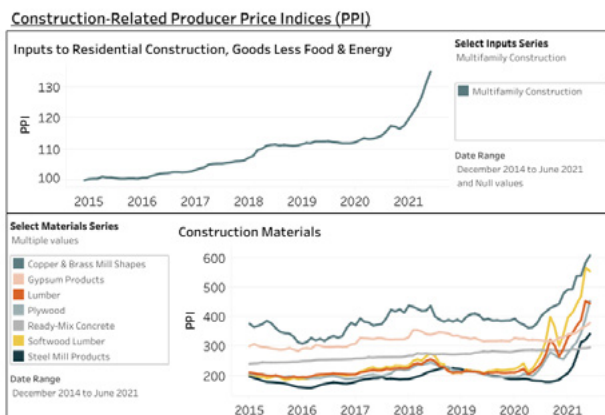


**Asset Characteristics** – The trend away from developing garden style apartments to larger single-building frame structures has drawn scrutiny from underwriters. Carriers willing to offer full limits on \$20MM+ single buildings are at higher risk of experiencing a total loss. A single fire can take out most of a building and often the remaining structure is ordered to be torn down.



**Asset Location** – Many Regions experiencing high population growth, and thus more multi-family development, have high weather-related loss exposures. This aggregates the high severity loss exposure amongst carriers willing to offer capacity in those regions, and it has proven difficult for underwriters to price risk correctly. A few states/cities stand out; Florida (CAT), Texas (CAT/Hail/Winter Freeze), and Denver CO (Hail).

## CONSTRUCTION COSTS & BUILDING MATERIALS INFLATION



Material costs for multifamily construction increased substantially over the past 12 months. The above graph shows the Producer Price Indexes (PPI) for major inputs to residential construction from Dec '14 to June '21.

Due to building materials price inflation, the average replacement cost per square foot for multi-family properties has increased anywhere from 20 - 40+ %. Unfortunately, these higher valuations are compounding concerns around the rising rate environment. As a result, conversations with underwriters regarding acceptable valuations is needed in order to avoid restrictive terms (i.e., margin clauses, scheduled limits). Communication with lenders and verification of values through the accurate use of Marshall and Swift is critical.

Source: U.S. Bureau of Labor Statistics; data not seasonally adjusted. Inputs to Residential Construction PPI Series (201412 = 100). Materials PPI Se.



## NFIP CHANGES ON THE HORIZON

Effective October 1, 2021, FEMA is updating the National Flood Insurance Program's (NFIP) risk rating methodology via the implementation of a new pricing method called Risk Rating 2.0. This methodology leverages a decade of research and cutting-edge mapping technology to reflect a property's unique flood risk profile more accurately. Many properties will see a decrease at renewal. However, this new technology will also cause some properties to be more expensive to insure. Risk Rating 2.0 notes the rate increases are likely to be capped at 25% + taxes and fees per year. Coastal or waterfront properties should be prepared for increases they will likely receive after October 1, 2021.



## BUILDERS RISK MARKET

**Builders Risk Market Continues to Firm** - The builder's risk market continues to reflect the challenges present in the property insurance marketplace, in general, with capacity constraints and abnormally high loss ratios. Specifically, wood frame new construction continues to see double-digit year-over-year rate growth. This can further be exacerbated by a wood frame project that is a single structure and in a CAT-exposed geographical area. For larger projects (\$50,000,000 and up), capacity per carrier deployed is limited, so the limit tower that needs to be built encompasses more carriers than in the past, making it more expensive. To achieve the best quote results, the more information that is available, as well as using a best-in-class general contractor, type of project, location, and type of construction all significantly impact a competitive quote.

# CASUALTY

## TRENDS IMPACTING THE CASUALTY MARKET

- **Social Inflation** | The rising costs of personal injury settlements due to litigation finance, medical cost inflation, ubiquitous media, and anti-corporate sentiment is driving up claims across the board. Research shows a 300% increase in the frequency of "nuclear verdicts" in excess of \$20 Million. With nuclear verdicts becoming more commonplace, especially in highly litigious states, insureds will continue to see an increase in general and excess liability insurance premiums.
- **Assault & Battery** | Many carriers have started excluding or sub-limiting coverage. The best way to approach the market is to know the carrier's position and approach accordingly. Underwriters will look at loss history, crime scores, and will often Google search each location. If appropriate, consider segmenting out specific locations to find the coverage for your more attractive locations, as some carriers are known for declining your entire portfolio just because a few undesirable locations are included.

**Top 50 US Tort Verdicts:  
Median Verdict Vale, USD m**



Source: Shaub, Ahmuty, Citrin & Spratt; Swiss Re Institute estimate for '19

## GENERAL LIABILITY

The general liability market for portfolios deemed best in class remains stable. For properties that have high crime scores, poor loss history, or with high section 8 occupancy, the market continues to harden. Premium volume is important to underwriters, as many carriers remain unwilling to quote stand-alone properties and carry higher minimum premiums. The general sentiment is that even a single slip and fall claim will wipe out any chance of an underwriting profit.

## EXCESS LIABILITY

The excess liability market continues to harden across the board. Risk Purchasing Groups historically were a very common excess/umbrella liability option. These groups generally priced their premiums 50% below the rest of the market. Unfortunately, many of these groups experienced very poor performance and are no longer writing new business. For those insureds that still want to carry higher excess liability limits (\$25M+), building those towers in the open market as opposed to the risk purchasing groups is becoming more and more cost prohibitive. Many portfolios are experiencing 100%+ increases on this line of coverage while often times carrying lower limits, as well.

## EXECUTIVE RISKS



**Directors & Officers (D&O)/Errors & Omissions (E&O)** – For Private Equity real estate groups, the D&O and E&O exposures are closely aligned. Most cases filed include allegations for both exposures. Thus, the market has adapted and created a hybrid policy to cover most of these types of suits. This market had begun to harden considerably in 2019 and COVID-19 only further exacerbated the insurance market's concerns. Rates are rising by 10-15%+ and retentions have also increased substantially, generally starting at \$150K and going up from there.



**Heightened Employment Practices Risks** – The pandemic unfortunately has exacerbated what was already a challenging employment practice liability market. A combination of new/updated legislation (FFCRA, FLSA), coupled with socially driven movements (#MeToo, Pay Equity, and Black Lives Matter) have accelerated the rate of litigation. In turn, we continue to observe an upward trend in both rates and retentions. As a result, multi-family underwriters are asking for more details around vaccine plans, financials, reductions in force, pay, FLSA compliance, and anti-discrimination.



**Ransomware, Ransomware, Ransomware** – The days of limiting cyber risk to a data breach are long gone for multi-family operators. The dramatic uptick in ransomware attacks over the past year or so is a testament to this. As a result, apartment owners and property managers must remain vigilant about controlling ransomware risk due to the significant financial loss and disruption that can arise after an attack. Vendor management programs, security awareness training, multi factor authentication, and proper backup procedures are three examples within a lengthy list of cybersecurity best practices to consider right now.

## TIPS FOR NAVIGATING THE MARKET

- Depending on size and complexity, start the renewal planning process between 4-6 months out.
- Craft a carrier RFP that highlights your positive risk characteristics and gains preferential treatment.
- When appropriate, utilize analytics to project renewal pricing and improve negotiation leverage.
- Precise Data Collection is Paramount – In depth and accurate construction data is vital if catastrophe modeling is going to be used to guide strategy properly. Data integrity can help clients position the portfolio more favorably to underwriters while also providing decision making insight around various program structures and options in a hardening market.
- Consider using video conferencing to meet with competing underwriters and personalize the process.
- Demand a detailed coverage analysis to avoid punitive exclusions being added to your program at renewal.
- Request a detailed service plan after binding the renewal to ensure a return on broker compensation.



*This material has been prepared for informational purposes only. BRP Group, Inc. and its affiliates, do not provide tax, legal or accounting advice. Please consult with your own tax, legal or accounting professionals before engaging in any transaction.*