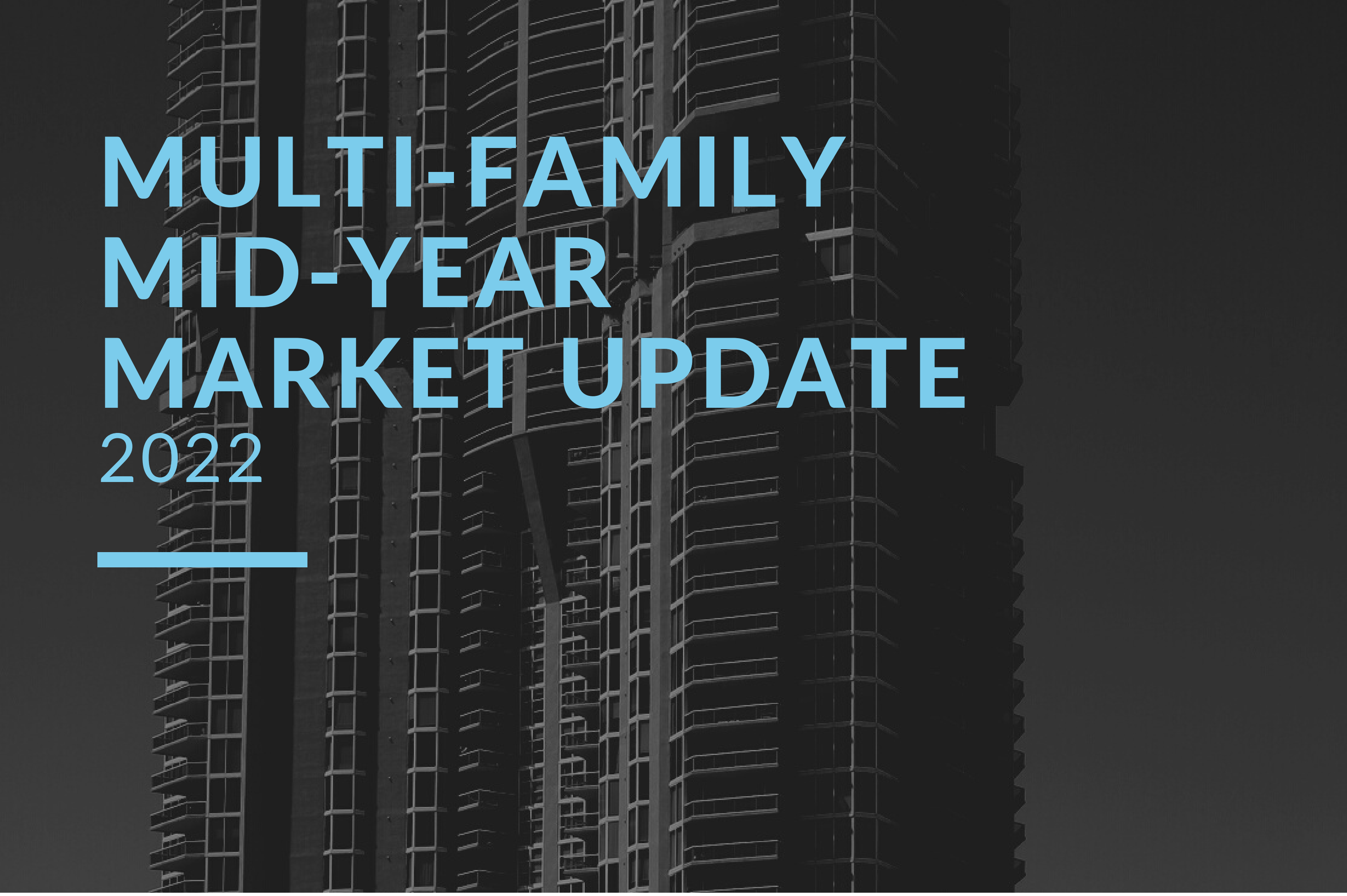

MULTI-FAMILY MID-YEAR MARKET UPDATE

2022

2022 marks another year with a hardened market. The soft market ended in late 2018 and is not expected to return anytime soon. Because of macroeconomic trends, the market continues to harden. As a result of this, underwriters are expected to continue viewing the multifamily asset class with caution for the foreseeable future. We can also expect underwriting guidelines to become more fragmented based on asset characteristics and location.

Real Estate Owners and property managers need to differentiate their risk profile by highlighting strong risk management protocols, operational controls, and claims management policies. It is imperative that these processes are clearly communicated with underwriters.

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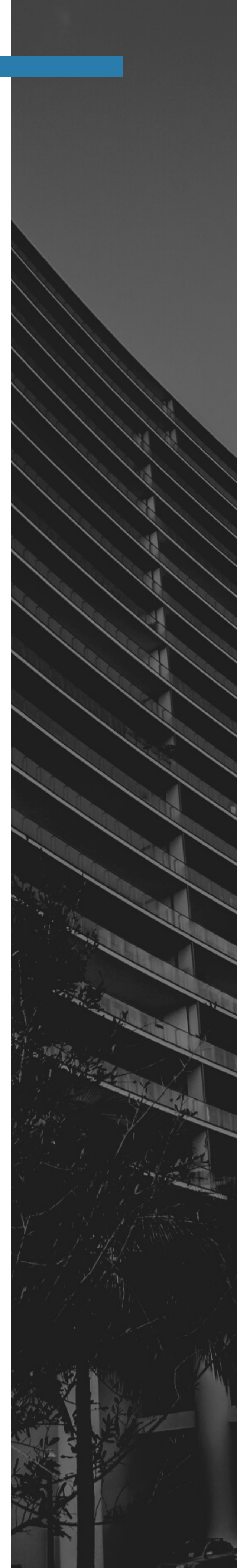
UNDERWRITING TRENDS



Labor Shortages

Underwriters, particularly those working for carriers with an appetite for habitational accounts, simply have more submissions than they have time to work on. This is due in large part to staffing constraints across the workforce. We also believe that carriers have an interest in limiting the number of submissions their teams can process. Simply put, no carrier wants to open the flood gates and lose control of the accounts they are writing by hiring inexperienced underwriters who may push to put new business in the books without applying diligent underwriting standards.

Modeling

Carriers continue to develop in-house modeling capabilities, with most relying on commonly used CAT modeling. While the best underwriters use models only as a guide, models and prescreening systems often help carriers determine which submissions to focus on. They want to allocate time to accounts that these processes indicate are likely to be won.

What to do about it:
The submission process needs to be controlled and planned. The days of sending generic submissions to every carrier under the sun and expecting competitive terms in return are over. Additionally, asking an underwriter to quote excess property layers ten different ways yields poor results. Your insurance broker needs to pre-underwrite your account and design a marketing plan that appeals to carrier appetites for risk. Providing a clear direction to underwriters by painting a favorable picture of your exposure will render the best outcome.

Real Estate owners and property managers need to view submissions to carriers as a proposal. Underwriters, especially those likely to offer competitive terms, have more leverage in a hard market. Viewing and treating the marketing process as a partnership between the insured and carriers yields better terms and more transparency, as well as improved turnaround times for feedback from carriers.

The underwriting data you provide to the market needs to be complete and easy to understand. In many cases, tailoring the data for input into various underwriting models will help expedite the process and result in better market feedback. Although it is not always the case, generally the price underwriters charge for uncertainty is greater than if they know the full scope of an account's history and all underwriting information is provided in a user-friendly manner.

Ultimately, insurance is a business driven by relationships. Taking the aforementioned steps is likely to improve the relationships between the insured, broker, and underwriters, ultimately amounting to a more favorable outcome for the insured.

Property Market Update

Construction Type	Expiring Premiums	% Increase	Renewal Premium	$ Increase
Frame	**$400,000**	**5%**	**$420,000**	**$20,000**
Light Steel	**$100,000**	**5%**	**$105,000**	**$5,000**

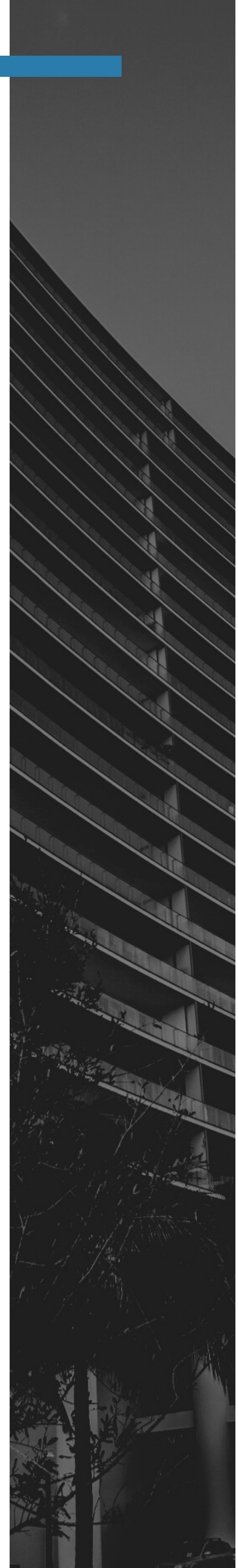
Valuations

Carriers are grappling with a long-standing trend in which many property valuations have not been updated in years or are composed incorrectly, leading to undervaluation. Because of this, for many years insured losses have been much higher than what was underwritten. Carriers have increased their scrutiny of property valuations to remediate this issue and have risk models more accurately represent the risk they are actually taking on.

They are focusing on increasing valuations, so they reflect a property's actual value. However, the unpredictable cost of raw materials due to supply chain disruptions, as well as inflationary pressure, have exacerbated carrier attempts to accurately value properties.

Data from SwissRe demonstrates the gap in insured and actual losses. This is a trend experts worry will only worsen due to supply chain issues and inflation.

PRICING AND CAPACITY



Frame Construction (Non-CAT)

- Capacity for new garden-style and podium/wraps is readily available, though many carriers do not have in-house capacity on single structures or locations over $20 million.
- Older garden-style properties, particularly those with remediated aluminum wiring, continue to struggle with carrier underwriting guidelines and capacity.
- North Texas, Oklahoma, Colorado, and many hail-prone areas in the Midwest continue to see rate increases and higher wind/hail percentage deductibles.
- Accounts with over $750 million in value are likely to see rate increases between 5 percent and 12.5 percent.
- Rates for primary layers on best-in-class accounts under $750 million can be close to flat. First and second buffer layers are the most challenging to fill.

Non-combustible (Non-CAT)

- Capacity is readily available for newer light steel construction. There is ample capacity and appetite for older, non-combustible properties, although pricing is high dependent on loss history and the current property condition.
- Higher water damage deductibles are becoming more prevalent, as this is seen as a loss driver.

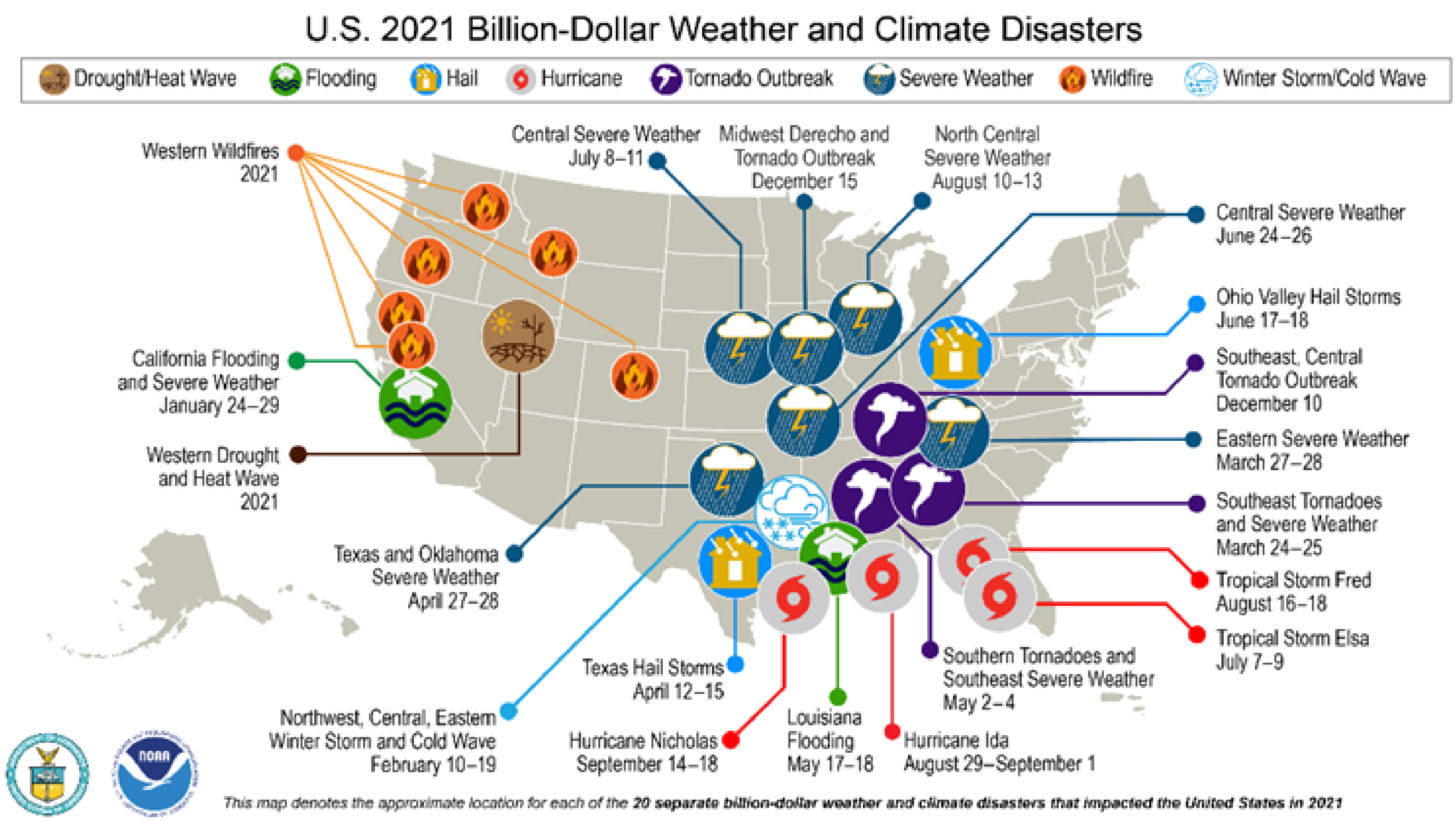
CAT Update

2021 was another year characterized by record-setting losses due to unpredictable weather events. On a global scale, this was a significant CAT year for carriers and reinsurers, both modeled and unmodeled. From hurricane Ida, winter storm Uri, the Quad-State tornadoes, wildfires, and flooding, it seemed like a natural disaster was making news headlines year-round.

In just the first half of 2021, natural disasters caused a total of $42 billion in insured losses globally, which was a ten-year high. Initial loss estimates for December's tornadoes are estimated to be $18 billion, making it the most expensive tornado outbreak on record.

Losses for 2021 total $120 billion for the global insurance market, of which the US insurance market accounts for $85 billion.

This is equal to 2005 losses when Katrina made land fall in Louisiana. Unfortunately, attritional losses, such as fire and water damage claims, also remain at record highs.



[Source: The National Oceanic and Atmospheric Administration (NOAA)]

General Liability

Carriers are continuing to push for rate increases to compensate for higher claims costs. Simple slip and fall claims that used to settle for $10k are now settling for $20k. Nuclear jury verdicts for assault and battery related claims can easily eat into excess liability layers. Underwriters see this trend continuing into the foreseeable future.

There are a small handful of admitted carriers offering competitive terms for mono-line general liability. It’s important to work closely with these carriers and provide the documentation required for them to underwrite a portfolio. If all admitted carriers decline, Excess and Surplus (E&S) market rates are oftentimes 25 percent to 150 percent higher.

Keep an eye on any violent crimes occurring at a property, particularly when acquiring a new properties. Many carriers are requiring mandatory assault and battery (A&B) exclusions if the crime score does not meet their guidelines or if they can find online news articles related to violent crimes at a property. They will Google search any flagged properties.

Excess Liability

The same theme for General Liability holds true for Excess Liability. Carriers have become more selective in what (if any) layers they will participate in. Excess liability carriers have been hit with large settlement and jury verdicts that were unprecedented even five years ago.

> The average size of jury awards rose almost 1000 percent from 2010 to 2018. In 2019 alone, there was a **300 percent increase in settlements of $20 million or more** compared to the average from 2001 to 2010.

Claims are continuing to hit the excess liability layers at an alarming rate, and underwriters are working to shore up their losses by either declining accounts or raising rates significantly. The year-over-year percent increases will depend in large part on your current pricing and claims history.

Flood Insurance Risk Rating 2.0 Equity in Action

FEMA updated the National Flood insurance Program's (NFIP) risk rating methodology through the implementation of a new pricing methodology called Risk Rating 2.0. Beginning October 1, 2021, only new polices were subject to the new rating methodology. As of April 1, 2022, all existing and new policies were subject to these changes.

Under this new rating system:

1. Limiting Annual Premium Increases will not increase more than 18% per year
2. Cost to rebuild and location address are key rating drivers in new methodology
3. Policyholders are still able to transfer their discount to a new owner by assigning their flood insurance policy when the property changes ownership. (More important than ever)
4. Elevation Certificates are not required but can only help and not hurt in premium rating

With Risk Rating 2.0, the hope was that FEMA would have the capability and tools to address rating disparities by incorporating more flood risk variables. These include flood frequency, multiple flood types—river overflow, storm surge, coastal erosion, and heavy rainfall—and distance to a water source along with property characteristics, such as elevation and the cost to rebuild. This is because many policyholders with lower-valued homes had historically paid more than their share of the risk while policyholders with higher-valued homes were paying less than their share of the risk.

Unfortunately, this Risk Rating 2.0 has caused more disruption and led to unintended consequences. Some individuals and entities with minimal risk have seen their rates skyrocket, and vice versa. **These are the four factors that are leading to inconsistencies:**

1. **Artificial rate cap:** Regardless of the actual exposure of a policyholder's property, they will not have to pay more than $12,125 per year for their policy. This cap fails to disincentivize people from building in flood-prone areas.

2. **Rates do not align with risk:** Even if a property has experienced many losses in previous decades, the structure is rated as though it's never had a loss.

3. **Discounts unrelated to risk:** These will continue regardless of an individual property's risk profile.

4. **No refunds after 30 days:** Policyholders are unable to get a refund for an NFIP policy after it's been in force over 30 days. This makes it extremely difficult for brokers to help their clients replace the policy with one from a private carrier that may offer better terms.

U.S. Storm Surge Risk, Gulf and Atlantic States, 2022

	Single-family residential homes potentially affected (1)	Multi-family residential homes potentially affected (2)
Storm surge risk level (3) (Storm category)	Number of units	Number of units
Category 1	1,281,273	40,426
Category 2	2,741,505	94,745
Category 3	4,436,484	156,948
Category 4	6,419,157	234,200
Category 5	7,527,853	258,821

(1) Residential structures less than four stories, including mobile homes, duplexes, manufactured homes and cabins.
(2) Apartments, condominiums and multi-unit dwellings.
(3) The risk categories are cumulative and increase in value from Category 1 to Category 5. Category 1 represents the higher risk of damage from a weak hurricane; Category 5 includes Categories 1 to 4 and the low risk of damage from a Category 5 hurricane.

Source: Insurance Information Institute

TIPS FOR NAVIGATING THE MARKET

- Insurance alone is no longer enough of a risk transfer mechanism, which is why Real Estate owners and property managers need to deploy holistic loss prevention strategies.

- Work closely with our Multi-Family team to become educated about potential exposures and learn what underwriters will assess your exposures.

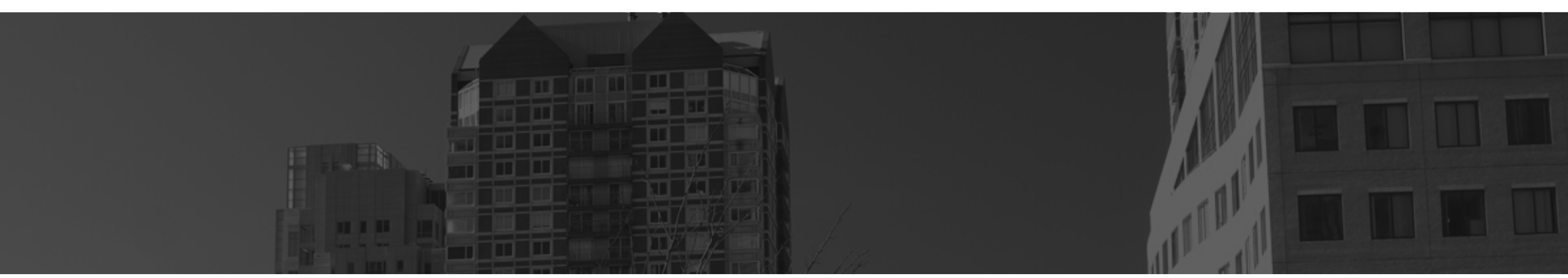
- Be prepared to provide complete, properly formatted data to carriers because when underwriters know the full scope of your risk, they're more likely to offer favorable terms than if they are left to guess.

- If you do have unfavorable loss history, be ready to show evidence of any corrective measures you took to prevent similar incidents from occurring in the future.

- What used to be insured under the same policy might now need to be insured by separate policies based on asset class or geographic location. Our team can help you determine if and when a bifurcation of your portfolio will provide you with the best possible outcome based on your specific circumstances.

Now more than ever before, it's important to partner with an experienced team that has a proven track record in navigating the complexities of a hardened market and placing coverage.

Contact our Multi-Family team today to learn more about how we can help you assess your risk profile and protect your assets and investments.



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