FHS RISK MANAGEMENT

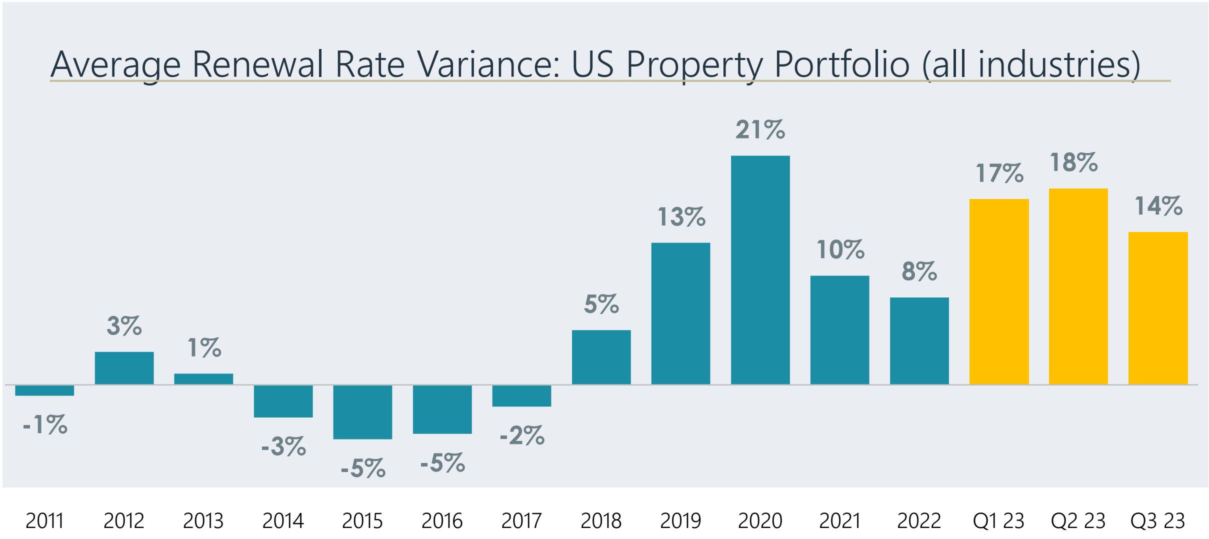
Insurance & Risk Management

Navigating Real Estate Insurance Challenges

Overview of the Current State of Commercial Insurance

The past four years have seen a significant increase in property rates, which accelerated in 2023. Coupled with carrier requirements to hold higher replacement costs, this is leading to skyrocketing insurance premiums, especially in catastrophe-prone areas like Florida, California, and Texas due to a material reduction in insurance capacity.

This trend and future market uncertainty is creating a significant valuation and operational impact for the real estate industry.



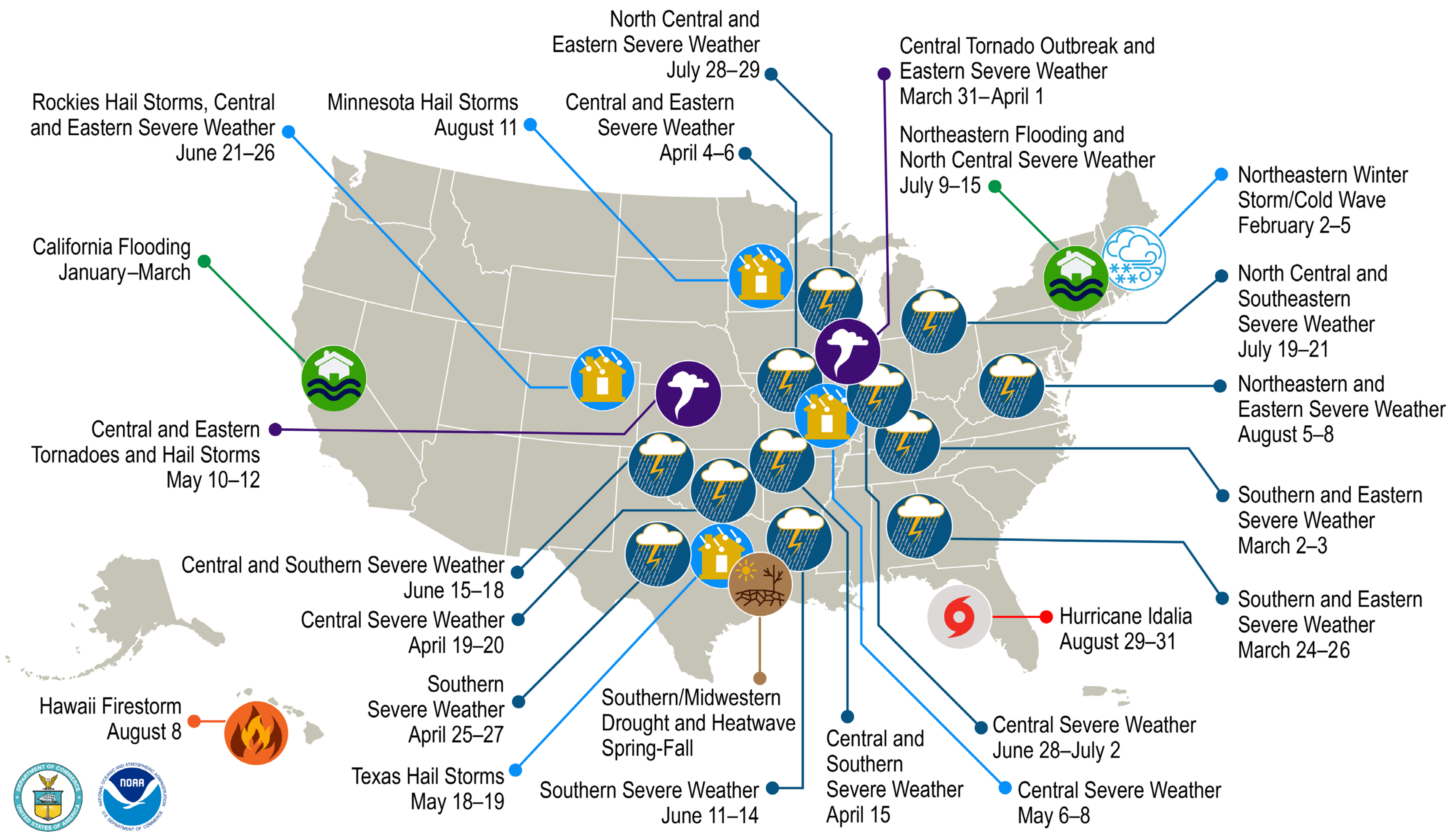
US Property Rates and Global Property Losses (Marsh Data)

Current Landscape

- 25 quarters of rate hikes in U.S. property portfolio starting in Q4 2017 (Harvey, Irma, Maria).
- Insureds saw double digit average property increase throughout 2023.
- Real Estate is seeing +25% Rate increases with certain asset classes, namely Multi-family, seeing sharper spikes.
- Pressure from carriers to increase replacement cost values is compounding rate increases.
- FL or CA renewals seeing >45% rate hikes; capacity strained.
- Global loss content now at $125B-$150B, up from $50B a decade ago.
- Estimated $20B capacity deficit when compared to the anticipated demand from direct writers.
- Reinsurance expected to rise 10-15% on January 1, 2024.
- Regional carriers are increasingly pulling back from the habitational market due to reinsurance constraints, further depleting capacity.

U.S. 2023 Billion-Dollar Weather and Climate Disasters

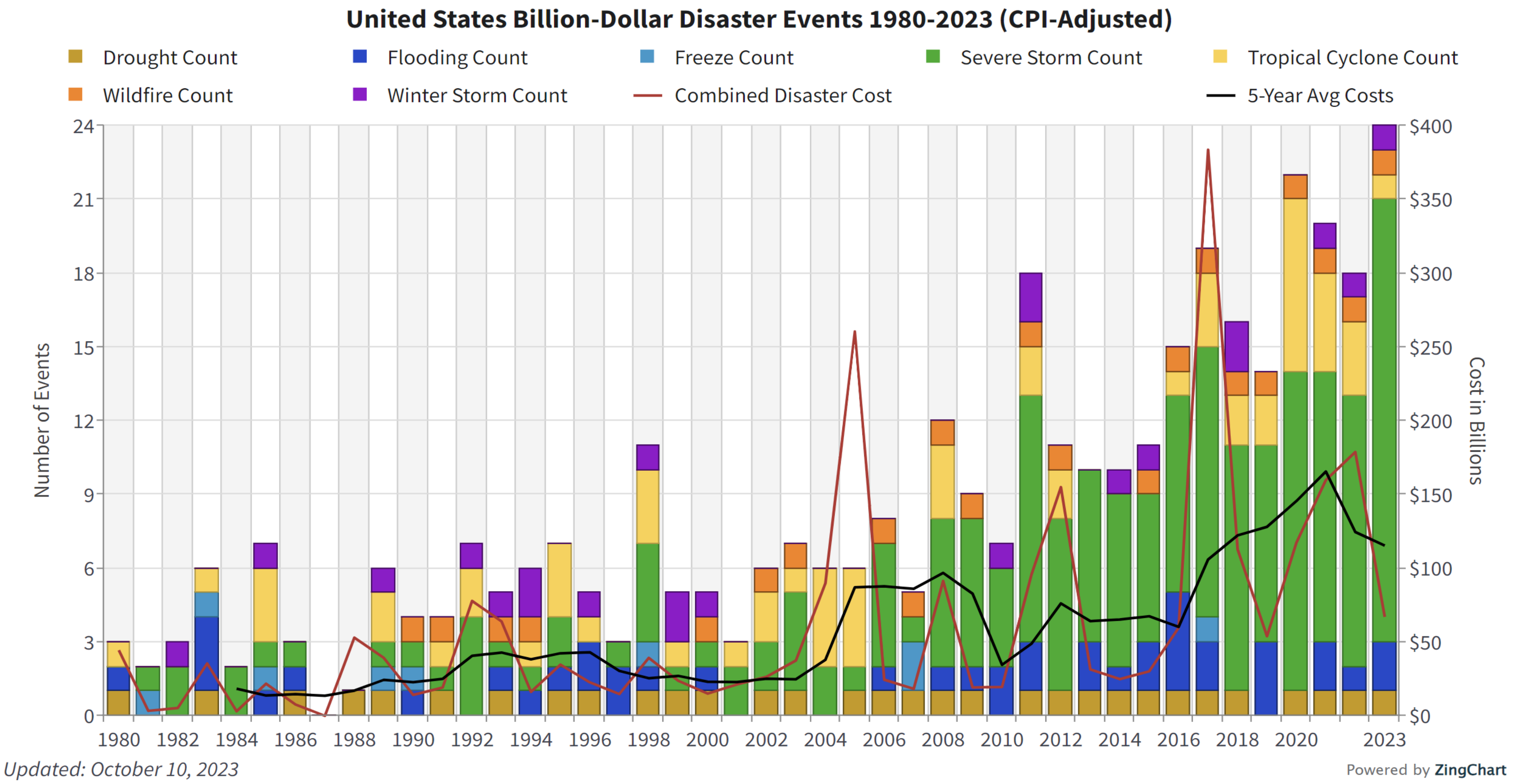
Drought/Heat Wave | Flooding | Hail | Hurricane | Severe Weather | Tornado Outbreak | Wildfire | Winter Storm/Cold Wave



This map denotes the approximate location for each of the ***24 separate billion-dollar weather and climate disasters that impacted the United States through September 2023.***

Insured losses from U.S. severe convective storms exceeded $50 billion - a first-time record. This accounts for about 60% of global insured losses.

Source: https://www.ncei.noaa.gov/access/billions/



Average Combined Disaster 1980s: $21.36B / 1990s: $33.78B /2000s: $61.32B / 2010s: $98.74B / 2020s (up to 2023): $130.78B

Source: https://www.ncei.noaa.gov/access/billions/

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What is happening to coverage?

Increased Retained Risk

- Increase in aggregate deductible funds.
- Captives / Self Insurance /Alternative Risk Transfer discussions.
- Traditional Deductibles shifting from **$25K to $100K or $250K or higher.**
- Earthquake and Named Windstorm shifting from **5% to 10%+.**
- Convective storm moving to **% deductibles**.
- Specific **Freeze claim** deductibles per location vs per occurrence.

Coverage Limit Reductions

- 2023 Costs of buying expiring CAT limits is up **30%-65%+**
- Available Catastrophe Capacity is dictating Limit purchases.
- Push for lenders to accept lower limits based on **modeled loss expectancies.**

Impact to your portfolio

Valuation Impact

- Valuation Risks: Appraisals assume X% growth, overlooking emerging risks and impact of inflation.
- **Methodology Shift: Integrating these risks could alter your portfolio's valuation significantly**.

Operational Impact

- Rising claims lead to premium hikes independent of market activity.
- Operational Disruption: Insurers pressuring for higher retentions.
- **Financial Strain: Skyrocketing premiums, especially in MF.**

Disposition / Exit Strategies

- Limited Opportunities: Shrinking buyer pools restricts disposition options.
- **Buyer Disadvantage: smaller buyers face steeper premiums and possibly inferior coverage.**
- No Insurance, No Financing: Uninsured buyers are sidelined.

In worst-case scenarios down the road: lenders may halt new loans, insurance non-compliance threatens existing loans, and assets could become uninsurable or unsellable.

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What can you do?

Insurance Strategies

- **Consider larger retentions**, self-insurance mechanisms, parametric products.
- **Alternative Risk Solutions:** captives/alternate structures
- **Structure** aggregate deductible funds to address attritional losses.
- **Bifurcation** of assets within various insurance programs.
- **Access Property Management** Insurance programs.
- **Reduce Limits**, CAT Limits, and Sub-limits in the programs based on modeling results.
- **Expand market** outreach to the global market – no stone left unturned.

Risk Management

- Have a true **Risk Management Strategy** to outperform the market.
- **Meet with underwriters** and wholesalers.
- Improve all **data quality** for info submitted to insurers.
- **Push tenants to carry $300K** of Liability insurance to create a buffer against tenant-caused claims.
- **Invest** in Leak detection, Flood gates, Fire Stove suppression systems.
- Solid **preventative maintenance.**
- Robust **Claims Management.**

Asset Management

- **Due diligence** in challenging insurance markets.
- **Climate Resiliency** Strategies.
- **Financial Modeling**/Capturing Future Growth rates of Insurance.
- **Budget** on Capex for risk Mitigators.
- **Consider** higher growth rates for CAT exposed locations.
- Enhanced **PM Oversight.**
- Identify **Exit Strategy.**

Improve the renewal outcome

Contacts

John Kempton
Sr. Consultant
Phone: (732) 674-0893
Email: jkempton@fhsrisk.com

New York Office
880 Third Avenue, 14th Floor
New York, NY 10022