



## Contact



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It appears there may be a faint light at the end of the current real estate market downturn. While aggressive asset management is still a primary focus, most players are looking to take advantages of the opportunities being created. The softening property and casualty insurance marketplace is well timed for owners trying to achieve both initiatives but, as usual, strategic thinking is critical to ensure success.

Many owners and managers saw the composition of their property holdings change during the downturn due to sales to raise capital, debt/ownership restructuring, or foreclosure. As such, the insurance program structure that met the owner's needs before the downturn may no longer be the best fit.

### Property Market Conditions

Property pricing is improving due to a lack of catastrophic losses in 2009, solid investment returns, and reinsurance cost decreases in the 10 percent to 15 percent range. There is also a greater sense of security among the markets that if "The Big One" hit (storm or earthquake), the capital markets would be able and willing to shore up surplus to allow them to continue writing business. Additionally, revisions to risk management solutions (RMS) modeling are often resulting in lower probable maximum loss projections for earthquake-prone risks in California, which has provided leverage to push carriers to lower rates even further.

While significant reductions are achievable (10 percent to 20 percent based on some of our recent renewals), it is critical to provide quality exposure data, including secondary RMS factors, recent engineering and appraisal reports, and information

regarding maintenance and inspection programs for items such as sprinkler systems and roofs. Modeling suggested that Hurricane Ike would cause considerably less damage in Houston than what actually occurred, and it is widely believed that poor construction and maintenance practices led to the increased figures. To achieve optimal results, it is critical to provide data beyond the basic construction codes in order to reassure the markets that locations were correctly built and well maintained. Particularly in a time when many in the industry are low on cash and human resources, confirming to the carriers that a comprehensive maintenance program is being followed and that necessary capital expenditure projects are being completed can often make the difference between a nominal decrease and something in the double-digit range.

With respect to placements without any catastrophic exposure, the market remains soft. In many cases, pricing is so thin that without pressure from new markets, there is resistance to providing further significant reductions. On a recent renewal, a new market that was successful in winning the business admitted had they been incumbent, they would not have been able to offer the same terms due to management's objections to large price cuts.

### **Terrorism**

Capacity remains available with continued downward pressure on pricing. As stand-alone markets fight to secure market share over "all risk" carriers providing Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) cover, they are looking for creative ways to improve their product. On a recent large portfolio placement with significant Manhattan exposure, all three carriers providing stand-alone Terror cover agreed to follow the coverage provided by the "all risk" markets, as opposed to using the typical T3 form (the standard terrorism policy form), which does not provide many of the ancillary coverages such as Law and Ordinance and an Extended Period of Indemnity.

### **Casualty Market Conditions**

As with the property market, investment returns and positive loss ratios have led to a market softening, with decreases ranging from flat to 15 percent depending on class of business and loss history. Incumbent markets are trying to hold rates flat, but any perceived or actual competition will result in decreases as the carriers fight to retain or win new business. Ample capacity remains in the marketplace, which adds to the downward pricing pressure. The softer market has also seen expanded coverage grants as carriers attempt to maintain market share.

### **Odds and Ends**

#### **Haiti and Chile**

The devastating earthquakes in Haiti and Chile are chilling reminders of the devastation to human life and property created by such events. It should also serve as a reminder to those owners with exposed assets to work with management to ensure proper evacuation plans are in place. Owners also need to reevaluate the overall exposure associated with deductible funding and limits purchased. Often real estate owners spend the majority of their time trying to determine the appropriate limit to purchase with less thought regarding the implications associated with funding deductibles if there was a catastrophic earthquake in the United States.

#### **Managing Insurance Programs In Difficult Economic Times**

Many owners have either had to sell assets to meet financial obligations, restructure ownership, or turn assets over to lenders. In these difficult times little thought is given to how the asset will be insured when it is restructured, often to the detriment of the remaining assets. Furthermore, as the makeup of the portfolio changes, the existing insurance program structure may no longer provide the most efficient transfer of risk and is most likely not structured to meet future needs. It is critical that owners communicate with their insurance broker through this process to ensure their insurance programs meet their specific needs.

### Green Buildings

With increased “green” construction, there are a variety of claims issues related to maintaining LEED status that may not be addressed in current insurance programs. For example, as the standards to meet certain LEED standards change over time there may be a coverage gap in existing policies to cover the increased cost to meet future standards. In addition, many LEED standards require debris in the case of a loss to be recycled, which will be more expensive and uncovered by current property policies.