

What to Expect in the Property Market in 2022

Emily Marker, Arlington/Roe Vice President, Commercial Brokerage, Property Practice Leader

As we move into 2022, we are seeing significant changes in the property market. We want to inform you, our agency partners, of these changes so we can provide realistic expectations to you and thus, you can prepare your insureds.

Two main factors are driving the property market this year: catastrophic loss events and valuation updates. While rate increases for most risks are expected to somewhat flatten out with 5-15% increases, high-risk exposures or those with significant loss history will see higher rate increases.

CATASTROPHIC EVENTS

Twenty years ago, CAT was California earthquakes and hurricanes in Florida. Now, it is everywhere! Starting in late 2017, the commercial property market has experienced above-average catastrophic loss events caused by weather, including tropical storms, wildfires and derechos in the Midwest.

In February 2021, we had Winter Storm Uri which caused \$30B in damages, Hurricane Ida which caused \$75B in damages, and the December tornado that caused over \$5B in damages. To illustrate just how many catastrophic loss events took place in 2021, check out this map published by the NOAA that shows all events that were \$1B or more in losses. There were 20 events in 2021 at a total cost of \$145B. That does not include the many events across the country where damages didn't reach the \$1B mark.

For context, according to NOAA, during the entire 1980s, there were 29 billion-dollar events totaling \$190.2B. In the 90s, there were 53 events at a total cost of \$293B. In the 2000s, there were 63 events at \$556.8B, and in the 2010s, there were 123 events totaling \$872.9B. As you can see, billion-dollar events are happening more frequently, and the cost of the events is continuing to rise. As a result, carriers are taking a second look at offering these coverages, their retention and, of course, pricing.

VALUATION

So now you have billions of dollars in damages, and carriers are finding out that many properties are underinsured. Some reports estimate that as much as 60% of the commercial E&S portfolio is underinsured. The increased cost of materials and labor, which were considered temporary at the beginning of the pandemic, are now accepted as standard.

Insurance-to-value is going to be a key area of emphasis. Underwriters are closely reviewing and challenging submitted values. For example, a standard frame construction apartment building that used to be considered adequately insured at \$110 a square foot, is now expected to be anywhere from \$145 to \$185 per square foot (or higher) depending on geographical area. In order to have replacement cost policies, agents must work with insureds to properly value their buildings.

While we do not expect to see the 25% rate increases like we have over the past few years, increasing exposures to proper values will result in higher premiums.

So, what can agents do to get the best possible terms and conditions for their insureds? This is the million-dollar question, and we are hoping this article will help you and your insureds. Underwriters are looking for complete submissions, including fully completed Acord 140s with building update information. We need 5-year hard copy loss runs, and as always, we need to know what the story is. Where the

coverage is now. What the expiring premium is. And why the coverage is being shopped.

Our carrier underwriters receive between 30-50 submissions a day, so the easier we can make it on them, the more likely we will get a competitive quote.

Fortunately, we have markets that can offer terms on many of the risks our agents see. Some recent successes include:

- Vacant property
- Student housing
- Hotels (some motels)
- Light manufacturing
- Plastic injection molding
- Machine shops

We are here to help you navigate these changing times, and we are glad to answer any questions you have, whether it be if the risk fits our markets, or making sure we have all the information we need to get a competitive quote. We look forward to working with you and continuing to provide you with information to help your agency!