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2019 real estate industry outlook: Position your portfolio to minimize rate increases - by Tom DeLark and Chris Dunlap

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Positioning your portfolio to be attractive has always been important to you. Now, it's important to your property underwriter, too.

The lasting impacts of the catastrophic 2017 hurricane season and ongoing depressed building valuations have taken their toll. Property policies have nowhere else to go but up. The long-standing soft commercial property market is now headed toward correction, and because of it building owners/operators can expect to see carriers looking to increase policy premiums in 2019. Most significantly, loss-affected and coastal properties could experience spikes of greater than 25%.

Those that maintain or improve their standing will be best positioned to keep rising costs at bay. How? By tightening risk management, including disaster preparedness ahead of the next CAT event, and engaging your broker to do what they do best – negotiate on your behalf.

Looking ahead, here's what is in store for real estate in 2019:

• Habitational real estate challenge will take a hit in 2019. Driven largely by traditional property loss leaders, including fire and water damage and increased property valuations, the largest property policy increases will be felt by habitational real estate owners. In the first half of 2018 alone, building construction costs were up 3%. Considering this rate of inflation, a property valued at $1 million just a decade ago is very likely significantly underinsured today. To best position your habitational real estate, champion preventative maintenance, risk management, emergency response and have a water mitigation plan.

• Water damage floods the market as a major loss leader. Water damage claims will continue to be one of the largest drivers of commercial property losses in 2019. As a result of an aging infrastructure and defects in new construction, significant claims are occurring across commercial and residential high-rises. Typically, what begins as a small event in one space becomes a massive building-wide claim. For example, a recent claim involving a residential high-rise condominium occurred when a ½-in. water line broke in the penthouse unit and flowed water for 20 minutes. Due to the cascading effect, the result was a major six-figure claim, with months of headache for the affected condo owners. Underwriters are taking note and will put additional deductibles on property policy renewals to protect themselves.

• Being green isn't always sustainable. Sustainability initiatives are great – when they don't lead to additional risk. When they do, property owners and operators will face limited insurance options. For example, photovoltaic (solar) panels on the roof introduce the chance for electric shock, and therefore, firefighters won't spray water on them if they're charged. Roof-installed renewables near the coast could blow off in a storm, causing additional damage to neighboring structures. Similarly, new, all-wood structures have proven difficult to insure due to their increased risk of fire. Consider discussing renewable options with your broker/carrier before installation.

• Working together. Warehouses and shared workspaces are exploding, counteracting shrinking retail demands in urban areas. The WeWorks of the world have a strong leasing power in high numbers, and are able to pass the savings along to businesses looking for a smaller footprint. Like renting a car, it doesn't strain the organization's budget to rent office space by the day, week or month - especially when someone else is taking care of the technology infrastructure, office management and building upkeep. As businesses face increased operating costs, they're turning to shared work spaces more and more. Consult your broker/carrier to find out what type of insurance and risk transfer methods are best if you decide to offer shared workspace.

• 2019 growth and beyond. With few significant CAT events in 2018, carriers and insurers alike breathed a sigh of relief. Now it's time for portfolios managers to look inside their facilities and employ best practices to minimize common loss leaders – fire, water damage and more - that threaten to further increase property policies into 2019 and beyond.

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