State of the Market: A Focus on Builders Risk

The first half of 2024 has brought drastically different market conditions than were seen during the same timeframe of the prior year. Markets are eager to write new business and, with an increase in capacity over the past 12 months, placements are now commonly oversubscribed.

This increased appetite is impacting rate but is more notably increasing carriers' flexibility when it comes to terms and conditions. Complex deals still require negotiation, but brokers have more leverage today against carrier pushback, helping buyers avoid nonconcurrent programs and obtain the best combination of coverage and pricing.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Overall market trends – capacity and pricing

The growth in capacity that began in late 2023 has continued into 2024 from both new entrants to the market and existing markets willing to increase their share. Importantly, there is more follow capacity available, which can lead to fewer markets needed to fill out a deal or replace markets that are inflexible on terms.

Brokers may still face some challenges with CAT capacity as most markets have limited their line size. Regionally, New York remains a difficult environment for CAT coverage, and in Florida and other coastal areas, CAT risks are still seeing sublimits on Named Windstorm (NWS). Coverage for wind can be found, but cost plays a greater role in a client's decision to purchase full limits. Additionally, high crime-score areas—such as the Bay Area/Oakland, Portland, downtown Los Angeles, Nashville and Phoenix—are seeing correspondingly higher rates and higher deductibles than other areas.

Despite regional differences, greater capacity combined with reduced demand due to fewer project starts has created market softening. Overall, rates have flattened and there is a notable aggressiveness on the part of markets to take on risk, including in the wood frame space.

New insurance carrier and MGA capacity has entered into the space, though many of these new players lack the long-term expertise and/or policy lifecycle management experience as the long-term providers. However, these new capacity entrants have created more of a price-ceiling than what previously existed in 2020 through 2022.

Terms and conditions remain roughly the same, with brokers able to extract a bit more from underwriters in respect of "soft" coverage enhancements like escalation, permission to occupy and guaranteed extensions. (A guaranteed or automatic extension period is a key term that had previously dissipated during hard market, but expect to see it reintroduced into policies, quotes and binders.)

The most challenging market conditions will persist in wildfire and higher crime-score areas, and it will be interesting to see exactly how the market responds. In fact, it begs the question: will carriers start to offer deductibles around wildfire?

While the market has mostly recovered from COVID-19 and the civil unrest of summer 2020, fluctuations continue. We expect to see an uptick in the economy over the next few months; however, this is an election year and construction tends to be slow in the first part of the year. Only time will tell what the overall impact will be.

Insureds will benefit from on-going coaching on the more typical "capacity constrained" placements, especially in respect of selecting experienced lead-markets and being realistic about site-protections, deductibles and rates.

Economic trends impacting the market

Supply chain issues have been less of a factor in recent months and material costs have stabilized. However, the labor market remains a challenge for clients, with worker shortages becoming a common reason for project delays. Program extensions are often required, and changing terms during extensions is still common. For example, risks bound 24 to 30 months ago are no longer accepted and are being amended.

Inflation is still a driving factor in the cost of insurance programs, as the value of a project can increase during the construction phase itself, but concerns regarding the builder's risk space have greatly subsided since 2022. Valuations, except in parts of Texas, are greatly improved and more in line with market prices.

The interest rate environment continues to depress some construction activity, particularly among smaller developers who typically seek a short hold on real estate assets. Tier 1 developers looking to own and manage a property for a significant time period can support a higher interest rate through ongoing lease cash flow. Therefore, until interest rates decrease, there will likely be fewer program opportunities coming from Tier 2 or 3 developers.

Specific segments

Frame construction

There have been some recent fire losses in the wood frame space that may eventually affect some markets' appetite and pricing, but thus far have not spurred a significant reaction. Overall, in fact, the wood frame market has seen an increase in capacity (non-CAT) in the last 12 to 24 months. The majority of mid-size and even large wood frame projects have been oversubscribed during quoting, giving brokers the flexibility to seek the best terms and conditions and demand true follow-form coverage from upper layers.

At the same time, many primary markets have increased their wood frame line size to create less need for multiple markets on a placement, resulting in lower overall premiums to buyers. Large wood frame and podium-style projects in particular are seeing stabilization in rates, although not to the extent seen in garden-style projects that are seeing notable softening, with rates commonly available in the high 30-cent range.

Renovation

Renovation projects have been challenging to place, particularly when existing structure values exceed the new work values. However, we have seen some new markets and products aggressively targeting this space when it comes to better construction classes. Frame and joisted masonry are still extremely difficult to place, but this area presents an opportunity for carriers to consider if the market continues its downward trend.

More information and engineering reports may be required to obtain a deal, but coverage for existing structures and defects may still be provided.
On structural renovations to existing buildings, details of the account and valuation of the existing structure are necessary to negotiate with most markets.

Takeaway

The increase in capacity from new entrants is good news for retail agents and buyers as it will likely lead to continued softening in the builder's risk market. However, established markets may be slower to respond to changing conditions and unwilling to offer the most competitive terms and conditions out of the gate. Pushback is often needed on the first offer to obtain not just the best pricing, but the most buyer-friendly terms such as pro rata extensions, warranty language and occupancy clauses.

Looking ahead, retailers should focus on procuring accurate and detailed timelines, budgets, site-plans and soft-cost breakouts from insureds in order to yield the best pricing structure for their programs. Gathering this information up front helps underwriters obtain more accurate quotes in a timely manner.

We help you win

Effective negotiation in this market requires broad access to both new and established carriers and the proven ability to build relationships and work closely with underwriters.

Amwins knows the market inside and out. Our access to key players enables us to create solutions that achieve the best combination of rates, terms and conditions. We also bring a robust, data-centric approach to placement of insurance and in support of you and your clients.

Contact your Amwins broker today for more information.

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