

REAL ESTATE MARKET UPDATE

SPRING 2025



As we enter the second quarter of 2025, the real estate market continues to experience both challenges and opportunities. The evolving dynamics within the marketplace demand a strategic approach to risk management and insurance placement. In this market update, we outline the current state of the property, casualty, and MLPL markets and provide recent success stories that highlight how Brown & Riding's specialized teams are addressing complex client needs.

QUICK LINKS

[Property Market](#)

[Casualty Market](#)

[Management & Professional
Liability Market](#)

STATE OF THE PROPERTY MARKET

For the past several years, the property market has been in a hardening cycle. Real estate accounts faced reduced available capacity, tightening of appetite, especially regarding age of construction and updates, more conservative terms and conditions, and increased rates. Additionally, the markets scrutinized building valuations, which led to increased values and catastrophic deductibles.

Heading into 2025 with valuations addressed, there was a sense that the property market would need to see a stabilization of rate and capacity. However, even without factoring in the broader economic and interest rates environment, real estate owners would not be able to keep up with increased premiums and retentions.

KEY OBSERVATIONS

- The 2024 global and US catastrophic losses are seemingly viewed as within historical norms.
- California wildfires in Q1 of 2025 have caused some uncertainty and noise but have had little impact on Q1 business.
- Many standard markets, especially regional carriers, are becoming more conservative, creating additional opportunity for the Excess & Surplus (E&S) marketplace.
- There has been an increase in capacity from E&S carriers, particularly within MGAs/MGUs and the London market.
- E&S markets are adopting a more competitive approach and are competing to grow market share.
- The softening of the marketplace in Q1 of 2025 happened more quickly than previous cycles.

What Does All This Mean?

- **Retail vs. E&S Perspectives:** The influx of standard market nonrenewal and/or significant changes to terms and conditions have increased flow into the E&S space, which has created a difference in perspective.
 - Retail brokers view the market as hardening.
 - The wholesale perspective is that the market is softening.
 - The gray area between what is standard market placement and what is E&S placement is widening.
- **Competitive E&S Environment and Options Available**
 - Ample BOR activity, midterm rewrites, and captive offerings are being discussed.
 - Combining to master placement or separating to individual placement
 - Carriers are seeking market share and premium growth despite rates decreasing.
 - Changing layer structures and deductibles, and exploring buydowns or parametric products
- **2025 is a transition year for real estate:** Recent historical changes have begun to unravel as carriers compete for business.
 - In Q1, there was broader market appetite, additional capacity, and lower rates.
 - In early Q2, we have already started to see enhancements to terms and conditions.
 - All signs point to a continued softening cycle until a major event or series of events occurs.

STATE OF THE PROPERTY MARKET (continued)

OTHER FACTORS TO CONSIDER IN A TRANSITIONING MARKET

As real estate owners seek to find better solutions within the E&S marketplace, the carriers become inundated with submissions and options. The amount of BOR activity in Q1 of 2025 was extremely high, which created an administrative burden for the carriers. As carriers continue to compete for market share, a strategic plan and partnership approach tends to lead to a more favorable outcome because a single retailer and wholesaler with full market access can both generate carrier competition and allow for creativity and options.

Brown & Riding, as a fully independent company, 100% owned and managed by key employees, organized by specialty products and practice groups, offers clients the benefit of collective expertise, a Quality Management System certified to ISO 9001, and unparalleled transparency.

RECENT SUCCESS STORIES

\$195M Schedule of Market Rate Apartments

- **Exposures:** 6 complexes of frame, non-sprinklered, built pre-1985 with some convective concerns, and some remediated aluminum wiring
- **Issues:** Limited historical loss data at three locations due to recent acquisition. Known loss history included three claims exceeding \$1M and four additional claims, covering fire, hail, and water damage. Two of the locations were previously in the standard market but are now being nonrenewed.
- **Strategy discussed and agreed upon by the retailer and B&R:** The retailer sought to replace the locations in the standard market with alternatives in another standard market, while B&R simultaneously worked on a combined master layered program and individual location placements across various markets tailored to their specific appetites. The insured was open to retention options for AOP and CAT, allowing B&R to explore a range of deductibles, buy-downs, and parametric coverage. Additionally, B&R highlighted the insured's mitigation efforts post-claim as key points during carrier negotiations.
- **Solution:** Despite having a master all-risk program (\$10M primary, \$65M xs \$10M), monoline equipment breakdown and terrorism with various deductible options and a blended rate better than the expiring rate, the insured elected to purchase six separate all-risk policies to further benefit on premium and retention.

Typically, in the harder 2024 market, combining locations into a single master program offered the most beneficial solutions. In the Q1 2025 competitive environment, carriers seeking premium and market share preferred to offer more limit and write locations individually rather than share with their competitor.

Note: Each risk stands on its own merits and may have characteristics that require a different approach.

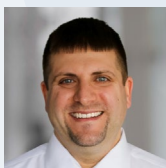
Renovation Including Existing Structure

A retailer approached B&R to cover a large renovation on a 16-story high-rise in Kansas City valued at \$45M. The project is transforming a vacant hotel into luxury apartments. After reviewing the submission, B&R's Construction Practice Group collaborated with casualty and pollution teams to provide a comprehensive placement that included Owners Interest coverage and pollution. The placement, executed with the expertise of three different teams, demonstrated the power of Brown & Riding's cross-functional collaboration.

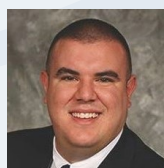
Client Feedback: B&R was critical in structuring a program for this historic renovation and conversion in Kansas City. All team members across three teams were timely, knowledgeable, and went above and beyond to get the deal done. They coordinated amongst themselves to make the process easy. The client reached out to one of the largest private brokerages in the world to double-check our work, and was told they could not compete with the program. B&R covered the marketplace, and the other broker gave feedback that the program's pricing and coverage were superior to similar programs they had placed recently. I am beyond happy and grateful for the team at B&R's hard work and dedication to this deal.

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[Back to Top](#)



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STATE OF THE CASUALTY MARKET

The casualty real estate market continues to face significant challenges, with carrier unprofitability persisting across the marketplace. While rates have steadily increased, the primary hurdle remains securing adequate terms and conditions. Rising claim activity and loss costs have led to carriers closely monitoring their exposure, resulting in heightened underwriting scrutiny across all real estate-driven casualty accounts. Insurers are closely analyzing loss history, claims trends, and geographical risks influenced by court precedents and the current litigious climate.

KEY OBSERVATIONS

- Coverage reductions for assault & battery, abuse & molestation, firearms, habitability, and animal-related risks have become increasingly common. Understanding market appetite and risk tolerance is crucial for ensuring that each real estate risk is appropriately placed.
- Proactive discussions and comprehensive submissions are essential to securing the best possible program while effectively managing agent and insured expectations. Partnering with broker specialists is critical to achieving favorable outcomes in this evolving market.

B&R Solution: To navigate this challenging landscape, we have found success in strategies such as portfolio consolidation, restructuring program structures, and increasing retentions.

- **Portfolio Consolidation:** Portfolio consolidation opens up carrier pool and increases competition. Larger premium thresholds provide more flexibility in underwriting accommodations, allowing for broader terms and conditions.
- **Comprehensive Marketing Strategy:** With reductions in carrier capacity, creative structuring of umbrella/excess towers is key. Shorter limits within the first \$5M are becoming commonplace. Managing pricing within these working/exposed layers is imperative to keep the tower pricing at a reasonable level. This is typically achieved by engagement of short/buffer limits and quota share layers. The shared limit approach of quota share layers helps to reduce rate with less exposure for both carriers within the working layers and increases interest in capacity deployment.

B&R's Real Estate Practice provides broad market access, specific expertise, and in-depth knowledge, enabling us to advocate for our clients and deliver the best possible value and experience in the marketplace.



RECENT SUCCESS STORIES

Independent Living Manufactured Housing Community Owner/Operator

- **Coverage:** Lead \$2M umbrella, \$3M xs \$2M XS, \$5M xs \$5M XS, \$5M xs \$10M XS, \$5M xs \$15M XS
- **Exposure:** \$180M revenue, 17,650 MH pads
- **States:** FL, WA, AZ, OR, CA, ID, CO, MT, NC, SC, NV
- **Premium:** \$1,945,000
- **Opportunity:** B&R took the insured's umbrella tower over in 2023 via BOR. This year at renewal, B&R performed full marketing effort and qualification of the program. By replacing four of the five carriers on the tower, B&R was able to achieve a 14% rate reduction across the tower. Total premium spend increased by 8% with exposures increasing by 25%.

STATE OF THE CASUALTY MARKET (continued)

RECENT SUCCESS STORIES

Multi-Family Apartment Real Estate Owner/Operator – Subsidized Housing

- **Coverage:** Primary GL incl. HNOA, lead \$3M umbrella, \$7M xs \$3M XS QS, \$15M xs \$10M XS QS
- **Exposure:** 4,300 MFH units, 100,000 sq. ft. LRO
- **States:** Alabama, Georgia, Texas
- **Premium:** \$1,550,000
- **Opportunity:** B&R was able to replace primary GL with a carrier willing to offer a short lead \$3M umbrella limit. The supported umbrella drove down costs throughout the rest of the excess tower. Both the 7M xs 3M and 15M xs 10M layers were placed via quota share layers. The shared limit approach helped to reduce the rate and relativity by 10%.

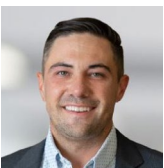


Owner Operator of For-Profit Thrift Store Portfolio

- **Coverage:** Primary GL, lead \$1M umbrella, \$4M xs \$1M XS, \$5M xs \$5M XS, \$10M xs \$10M XS QS
- **Exposure:** \$45M revenue, 20+ thrift store locations
- **States:** Florida, Georgia, Mississippi, Tennessee
- **Premium:** \$875,000
- **Opportunity:** B&R took placement over on BOR and was tasked with replacing the primary direct carrier and marketing a \$20M umbrella tower. Insured has multiple \$1M+ claims over a five-year history, which resulted in capacity reductions from lead umbrella incumbent, along with a reduction in interest throughout the tower. B&R replaced GL direct carrier, reducing premium spend by 50% compared to the incumbent and offering multiple deductible/retention options. Given challenges with risk, B&R fully qualified the marketplace, replacing capacity and amending the structure to mitigate increases across the excess tower. Shorter limits within the first \$5M and engagement in the QS layer for 10x10 helped to reduce cost increases coming from challenging risk profile and current loss history.

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[Back to Top](#)



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STATE OF THE MANAGEMENT & PROFESSIONAL LIABILITY MARKET

Navigating Real Estate Risk & Innovative Coverage Solutions

Each real estate venture presents unique risks. While General Liability policies offer some protection, they don't cover all exposures, which can result in significant financial loss due to coverage gaps. Ensuring your client has the right coverage can be complex, requiring specialized expertise. Our team of specialists in Management and Professional Liability (MLPL) works with the Brown & Riding Real Estate Practice Group to address these challenges and secure comprehensive coverage.

Innovative Coverage for Real Estate Syndicators

Traditionally, Real Estate Investment Management D&O/E&O and Real Estate Developer E&O policies are handled separately. However, understanding how these policies interact is critical to avoiding coverage gaps or overlaps. To streamline coverage, we've partnered with the marketplace to create a comprehensive policy designed specifically for Real Estate Syndicators. This blended policy combines the two separate policies into one, offering a holistic, affordable solution that satisfies contract requirements and simplifies risk management.

Why Align D&O/E&O and Developer E&O Policies?

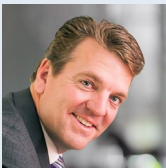
Aligning these policies is essential for robust protection and efficient claims management. Real Estate Syndicators typically manage diverse roles, including property management, construction oversight, and investment fund management. Misalignment between policies can leave gaps in coverage, especially when claims span across projects and investment management. An aligned approach addresses these risks, protecting against misrepresentation claims, ensuring comprehensive coverage for complex liability structures, and optimizing underwriting and policy terms.

Strategic alignment of these policies provides a unified risk management approach, giving developers, investors, and insurers confidence that all aspects of operations are safeguarded.

For any MLPL-related questions or guidance, our team is here to help, collaborating with the Real Estate Practice Group to provide expert insights.

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[Back to Top](#)



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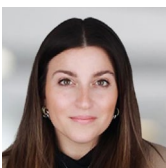
CONCLUSION

As we wrap up the first quarter of 2025, the real estate market continues to evolve with varying dynamics in the Casualty, Property, and MLPL sectors. The challenges of underwriting scrutiny and rising claims costs in the Casualty market, coupled with the stabilizing yet competitive Property environment, require careful navigation. In the MLPL space, aligning D&O/E&O and Developer E&O policies has become essential for robust risk management. At Brown & Riding, we remain committed to providing our clients with expert solutions, strategic insights, and the market access they need to secure the best possible outcomes in an ever-changing landscape.

If you're facing complex real estate challenges, the team at Brown & Riding is here to help. With specialists across various product lines, we work with insurance retailers nationwide to navigate intricate risks and secure tailored solutions. With our deep expertise and broad market access, we're ready to assist in addressing the unique needs of your clients. Please reach out to learn more about how we can collaborate to tackle even the toughest challenges.

For More Information

[Back to Top](#)



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