



WOODRUFF
SAWYER

BUILDER'S RISK & WRAP UP INSURANCE PROGRAM UPDATE

How Arson Attacks Are Impacting the Habitational Insurance Market

Pricing Trends, Appetite Changes, and Claims Activity

DECEMBER 2018

Builder's Risk Update - December 2018

Pricing Trends – Increasing

Frame:

Q4 2018: high \$.30 - \$.45+ (annual rate)

Q4 2017: low \$.20 - \$.35+ (annual rate)

Note: Additional security costs not included

Type I:

Q4 2018: high \$.04 - \$.07+ (annual rate)

Note: Rates have been more consistent for this type of construction

- Rates vary depending on location, size, spread of risk and project specific details.
- Due to continuous construction site fires, terms and conditions of a quote may only last 30 – 60 days (and re-quoting is not always an option)

Pricing Example

Sample Project

\$50,000,000 Contract Values / Hard Costs

\$10,000,000 Soft Costs & Loss of Rents

2 Year Project / Type III construction over Concrete Podium

Low Range: \$60,000,000 X \$.30 rate (/ \$100 values) = \$180,000 * 2 (years) = \$360,000

High Range: \$60,000,000 X \$.40 rate (/ \$100 values) = \$240,000 * 2 (years) = \$480,000

Note: The above does not include additional costs for Earthquake. Please discuss the exact location and EQ Zone with your Woodruff Sawyer contact.

Builder's Risk Insurance Marketplace Trends

- Heightened security requirements (additional project operation costs) – see details on page 2
- Frame construction projects that are over \$25M in values are typically becoming quota share programs (due to the recent large fire losses, insurance companies do not have the appetite to take on 100% of the risk).
- Carriers are rating Heavy Timber and Type III (Treated Wood) the same as Type V Wood Frame
- Multiple carriers necessary, yet some inconsistencies with appetite based on geography, reinsurance, particular account characteristics, and overall loss history.
- Insurers are reviewing the profile of general contractors including loss history, reputation, financials and site controls.
- Some insurers have pulled out of the frame marketplace – it is hard to tell if/when frame appetites will come back.

Builder's Risk Update - December 2018

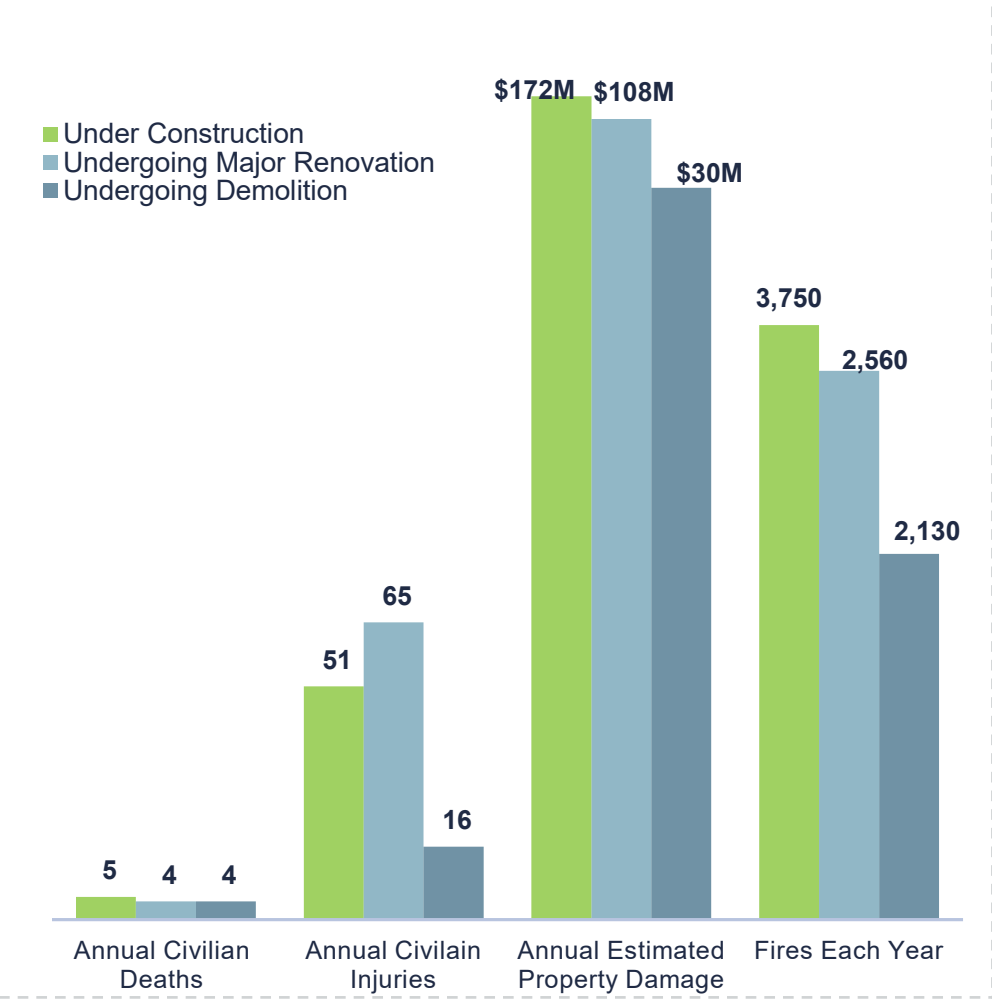
Top Builder's Risk Insurance Markets for Frame Construction

Westchester	Allianz	Highland
London	Arrowhead	TRU(RSG)
Ironshore	Safehold	Brit
Everest	Travelers	HDI
Hartford	Axis	Berkshire
RSUI	AIG	US Assure
CNA	QBE	Sompo

Insurance Company Security Related Requirements

- 24 Hour On Site Security Guards
 - Guards required to make rounds every 30 minutes
 - Digital Recording Requirements
 - Telephone in Hand
- Surveillance Systems
 - Tattletale – portable, digital cellular security system with high-performance wireless sensors
 - Pillar Technologies
- M-Fire Suppression – M-Fire’s mighty fire breaker job site spray
- Professionally installed and monitored electric intrusion detection system
- Hot work permits
- Public protection classification between 1 & 6

Statistics - National Fire Protection Association



Claims Activity Related to Fires - As of December 2018

Notes

- It is extremely difficult to gather claims information due to privacy issues. Many details are not available.
- Fire claims in itself are first party, but many Wrap Up Liability policies get triggered as the fires cause Third Party physical damage and bodily injury to other neighboring areas.

154 Unit Apartment April 15, 2018

- Location: 1005 E. Atherton Dr., Manteca CA
- Estimated first party damage: \$30,000,000
- Estimated third party damage: investigation on-going
- Security: On site security, fenced, lighting
- Notes
 - 36 apartment units lost
 - 2 – 3 story framed building burned to foundations
 - Fire has delayed opening
 - Buildings under construction, they burn very hot and very fast (no fires sprinklers or fires suppression systems in place)

126 Town Home October 23, 2018

- Location: Oakland, CA
- Estimated damage: \$TBD / under investigation
- Security: cameras and site security guard
- Notes
 - Since 2012, there have been five suspicious fires targeting construction in Oakland.
 - 126 town homes: more than 52 units sold at prices starting at \$600,000

84 Unit Apartment March 7, 2018

- Location: Denver, CO
- Estimated First and Third Party damage: \$TBD / under investigation
- Security: 24 surveillance cameras (fire started during the day)
- Notes
 - according to media sources, there were injuries including two fatalities, potentially 40 vehicles damaged and neighboring buildings impacted
 - 50 construction workers inside the building at the time of the fire

180 Unit Apartment April 24, 2018

- Location: Concord, CA
- Estimated First Party damage: \$55,000,000
- Estimated Third Party damage unknown
- Security: surveillance cameras, fenced, lighting
- Notes:
 - 60% complete, wood frame building
 - according to media sources – potentially multiple injuries, 260 evacuated

Wrap Up Market Update - December 2018

Pricing Trends – Primary \$2M/\$2M/\$2M

- Wood frame apartments run in the .07 – 1% of CV and “for sale” 1.5 – 2% of CV, depending on total limits purchased
- Factors that influence total pricing – geotechnical conditions, general contractor experience and claims history, location of the project and carrier min premiums
- Rates vary based on size of the project and total excess/umbrella limits needed.
- Underwriters are reviewing Quality Assurance and Loss Control Procedures more closely as a result of labor shortages in the construction space

Excess & Umbrella Markets

- Rates will vary based on size of the project and total umbrella limits needed. (The \$/\$1M in coverage decreases the higher up the tower of insurance.)
- Higher limits are recommended in more urban areas. General Contractors often have their own requirements
- Total Limits
 - Apartment projects – defense costs outside the limits
 - Condo projects: defense costs inside the limits & greater → higher limits needed

Wrap Up Insurance Marketplace Trends

- Fire claims have impacted the liability lines as well, resulting bodily injury claims and physical damage to adjacent structures
- Some carriers have pulled back or are re-evaluating their position in the market, however new carriers continue to enter the market so there is adequate capacity to maintain stable pricing
- There continues to be a lot of variance in risk and insurance costs between apartment projects and for sale projects

Top Owners Controlled Insurance Program Markets – Residential Projects

General Liability (Primary Layer)		
Houston Casualty	Liberty	Sompo
Venture	United Specialty	Navigators
Starr Specialty	Gemini	Everest
Pioneer	ISG/Amtrust	Lloyds
Excess Liability (more markets available in the excess layers)		
Ironshore	Liberty	Navigators
Starr	Endurance	Aspen