MARKET UPDATE

RESIDENTIAL REAL ESTATE BULLETIN JANUARY 2017

An overview of the residential real estate market during 2016 and our expecations for 2017

2016 has seen numerous changes to the insurance market underwriting personnel, with whole teams moving from one insurer to another. This has resulted in aggressive rating and competition to win new business and increase their market share resulting in lower rates for real estate clients including those with residential risks.

The benign weather conditions, particularly in Scotland have produced some pleasing results for insurers, meaning profit ratios are at an acceptable level. Significant rating increases are now unlikely to materialise in 2017 despite the frequency and volume of water damage losses which continue to plague residential properties.

JLT Specialty (JLT) has seen remarketing of risks and has also realised premium savings for clients as holding insurers drop their renewal prices to ensure any new business wins are not eroded by a declining retention rate.

All this suggests a positive result for those purchasing insurance, despite the tariff increases to Insurance Premium Tax (IPT) which is going to continue into 2017.

To summarise 2016 we have seen:

- The implementation of the Insurance Act, which came into force in August 2016, introduces a 'duty of fair presentation' which clarifies the requirements for the content of information presented to an insurer pre-contract and the form in which the information is presented. It also provides clarification on the remedies available to insurers where a fraudulent claim has been made and when warranties and terms not relevant to the loss should be managed
- The Increase in IPT to 10%

JLT Specialty Limited provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust – often unique – solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

Our Real Estate division has a wealth of experience, recognised within both the insurance market and real estate sector. The team specialises in the placement and management of real estate focused solutions utilising market leading IT platforms that are web based and allow control of the programme and access to real time information anywhere in the world.

- A number of insurer mergers and acquisitions
- Increasing pressure from leaseholders and occupiers on managing agent commission earnings
- Continued lender scrutiny on not only adequacy of policy coverage to assets insured but also wider undertakings being requested to the favour of the lender from both the broker and insurer community
- The developing of financial insurance products within the private rented sector (PRS) to provide an indemnity in unbudgeted lifecycle costs.

In 2017, we expect insurers to be focussed on preventative risk management initiatives to reduce attritional losses and manage escape of water claims to keep loss ratios low. There is also a further increase in IPT rates to 12% in June with more increases possible in the future.

The PRS or build to rent sector in the UK has grown substantially in recent years. PRS has overtaken social housing as the UK's second largest tenure and build-to-rent and has being hailed as the answer to the housing shortage.

As lifestyles change and purchasing property in the UK is viewed as a less viable option, the demand for PRS houses and flats will continue. The quality and longevity of these developments are seen as key for investors, developers and ultimately the tenants.

Planning permissions for PRS projects grew almost four times in the last year, and there are now planning permissions for more than 31,600 PRS homes in the UK. The 2016 Autumn Statement saw £1.4 billion being set aside to deliver 40,000 affordable homes and £3.15 billion for new homes in London.

This was followed by the positive news that a policy change will give the rental market its own affordable housing classification in London. The move is expected to unlock thousands of rental homes across the capital and see billions in investment enter the sector. It will provide official direction that rental schemes do not need the same affordable requirements as build to sell schemes.

Along with PRS, affordable housing will likely see an increase in the use of modern construction methods to expedite the supply of required homes. Bathroom & kitchen Pods, prefab and timber framed properties and modular construction will all have implications for the investor and those looking to insure these types of risk.

Clients should consider possible increased rating for these construction techniques, compared to traditional methods, each of which come with risk implications, for example where any increase in the amount of timber is used in a build the corresponding increases in fire protection or premium to cover the risk will be required.

Bathroom and kitchen pods which are effectively ready-made rooms are a common area of loss, with simple mistakes in plumbing connections resulting in a high frequency of water damage. The repairing of pre-fabricated, component parts in pods can also be incredibly difficult, or even impossible increasing claim costs which may be reflected in premiums for the coming year and beyond.

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