



2024 NLC-RISC Staff Conference

Burlington, VT • October 20 - 23

Navigating the Property Roller Coaster (without losing your cookies)

Mark Hessel, HCA Asset Management
mhessel@hcamgt.com 414.698.3768

October 23, 2024



I. Let's Get our Bearings



What's **New Today**???

(and where does this ride end?)



COVID-19

Economy & Construction Trends

Ongoing Climate Considerations

Underwriting Demands

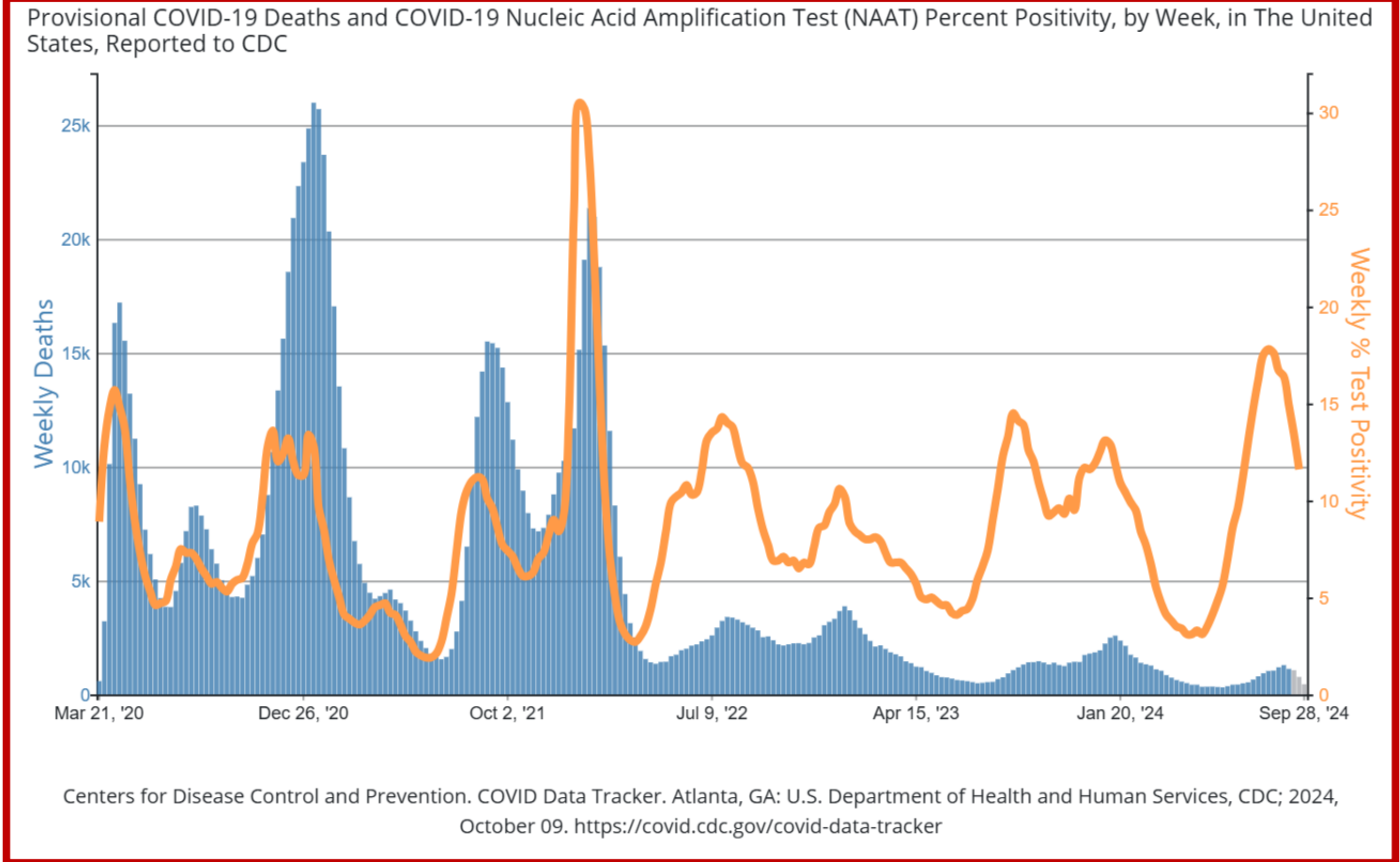


COVID-19 Then & Now

2020-24 Impacts:

- Economy Shutdown
- Supply Chains Disruptions
- **Demand Surge**
- Budget Impacts
- Changes in Labor Practices (and Costs!)
- Remote Workplace & Increase in Vacancy

2024-25 Impacts?: TBD





- Overall Unemployment Rate at 4.1% (September '24)
 - Construction Unemployment at **3.7%** (September '24)
- Targeted Government Spending (\$\$trillions)
 - Over \$4.6T spent/obligated in COVID relief (<https://www.usaspending.gov/disaster/covid-19>)
 - Still in pipeline... (i.e. Infrastructure \$1.2T; ESSER Funds; Incentives for EV, CHIPS Act, other green projects)
- Housing vs. Commercial – distinct differences
- Int Rates up, but from Historic Lows (**50 bps reduction announced 9-18; more to follow...**)



Construction sector helps to lift US private payrolls in September

By Lucia Mutikani

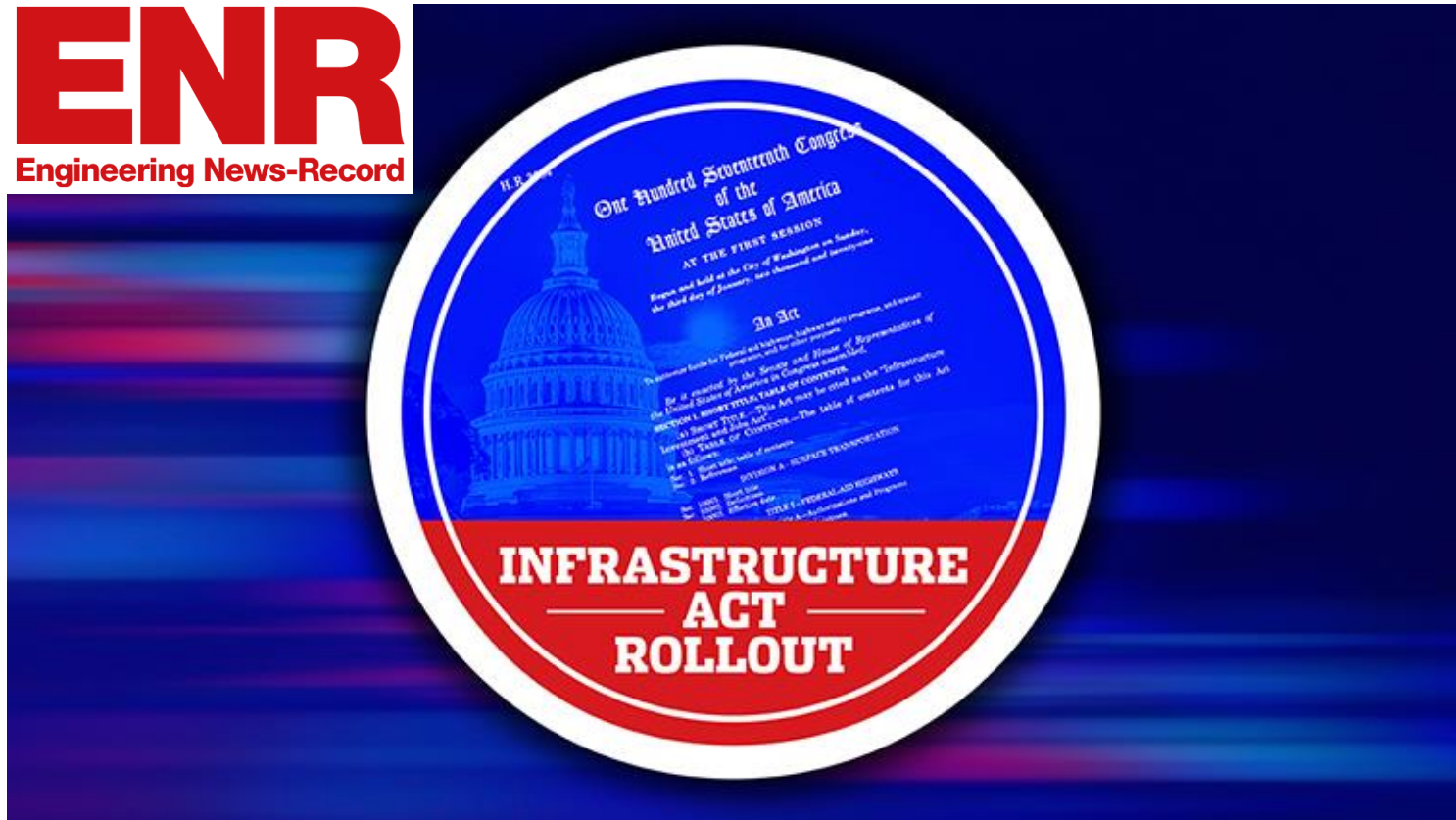
October 2, 2024 9:25 AM CDT · Updated 21 hours ago



White House Offers Progress Update on Infrastructure Act Rollout

[Tom Ichniowski](#) May 13, 2024

So far, \$454 billion in IIJA funds have been announced, supporting 56,000 projects.
Graphic by ENR Art Dept.



- Enacted Nov. 2021
- \$1.2 *Trillion*
- Highlights:
 - Bridges \$300 B
 - Rail \$ 66 B
 - Airports \$ 25 B
 - Ports \$ 17 B
 - W/WW \$ 50 B
 - Clean Energy \$ 62 B

FHWA Divides Up \$62B in Highway, Bridge Formula Funds [Tom Ichniowski](#) October 6, 2024



PROPOSED
\$30+ billion
IN INCENTIVES FUNDING

UNLEASHED
\$300+ billion
IN PRIVATE INVESTMENTS

CHIPS for America on track to achieve EVERY Vision for Success Goal

Goals

- > Create 2+ large-scale leading-edge logic clusters
- > Establish multiple high-volume advanced packaging facilities
- > Produce high-volume DRAM chips and R&D
- > Increase production for current- and mature-node chips
- > Build resilient semiconductor supply chain

Announced PMTs

- 5** Leading-edge logic clusters in AZ, OH, TX, and OR
- 4** Advanced packaging projects in TX, NM, IN, and AZ
- 4** DRAM production and R&D projects in NY, TX, IN, and ID
- 9** C&M projects in TX, NY, CO, NH, MN, OR, FL, VT, and NM
- 4** Supply chain projects in CO, TX, MO, and GA

15 PMTs

15 States

23 Projects

6

Advanced Packaging R&D initiatives launched

1

SBIR program launched

5

Metrology Grand Challenges funded

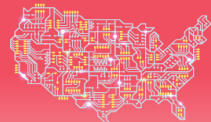
3

CHIPS R&D facilities envisioned

1

CHIPS Manufacturing USA institute in progress

All five major leading-edge logic and DRAM companies will produce chips in the U.S.



No other economy in the world has more than two

115,000+ jobs

35,000+
manufacturing jobs

78,000+
construction jobs

Economic Trends:



CHIPS Act \$\$\$



- Enacted August, 2022
- \$53 Billion in grants, loans
- **To date, approaching 60% awarded**
- Highlights:
 - Likely to generate 10X US Investment
 - Average Project size thus far \approx \$14B
 - Jobs, Jobs, Jobs!!!...

Economic Trends: Interest Rates & Cheap \$\$\$

20-BOND BUYER INDEX
1972-PRESENT



FRED — 30-Year Fixed Rate Mortgage Average in the United States



ENR ECONOMICS
THIRD QUARTERLY COST REPORT

3Q

Rate Cuts Expected to Spur Construction Activity in 2025

High labor costs will persist while other costs begin to decline **By Alisa Zevin**

The U.S. is now short 4.5 million homes as the housing deficit grows
Jun 18, 2024

Zillow® Press releases



Economic Trends: US (\$35T and counting...)

U.S. debt is so massive, interest costs alone are now \$3 billion a day

BY **JASON MA**

September 7, 2024 at 1:35 PM CDT



FORTUNE

NLC NATIONAL LEAGUE OF CITIES
NLC-RISC RISK INFORMATION SHARING CONSORTIUM

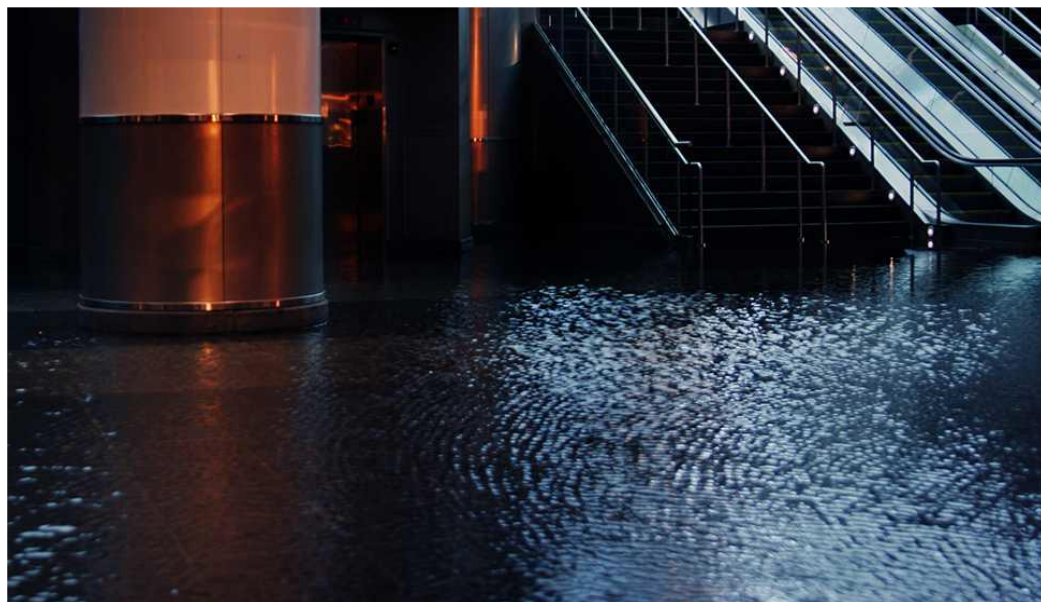


Corkscrew Climate Considerations

JUNE 27, 2024 | FEATURE ARTICLE

FM Approvals

SECONDARY PERILS HAVE BECOME PRIMARY CHALLENGES



'Secondary perils' are now the costliest natural disasters: Gallagher Re

Zywave | Advisen Front Page News - Thursday, October 19, 2023

Note: Severe Convective Storms alone, contributed 65% of the \$93 billion in insured losses (through 9/30) this year.

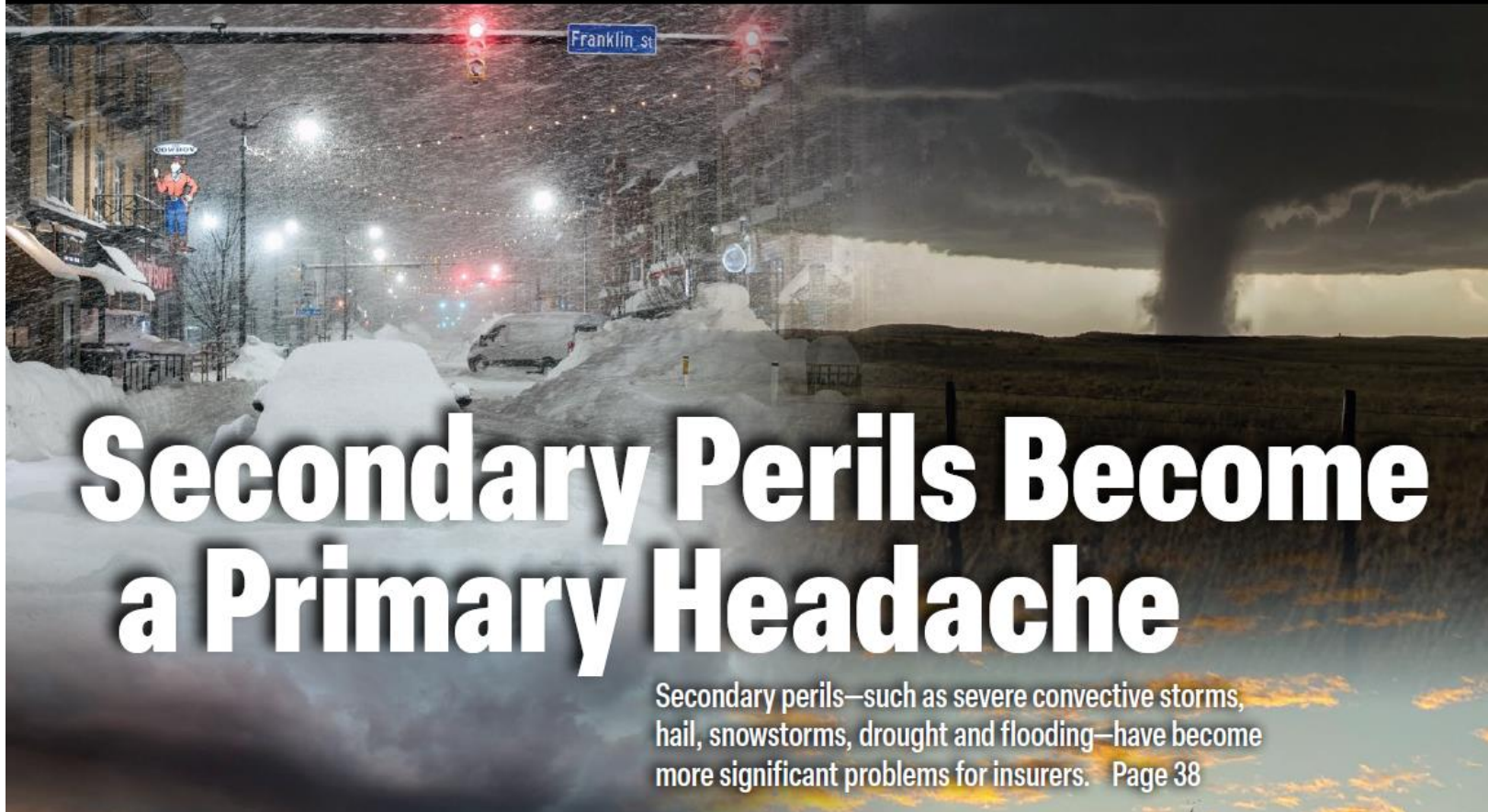
Climate Considerations

BEST'S REVIEW®

June 2024 • Volume 125 • Issue 6

bestsreview.ambest.com

AM BEST'S MONTHLY INSURANCE MAGAZINE



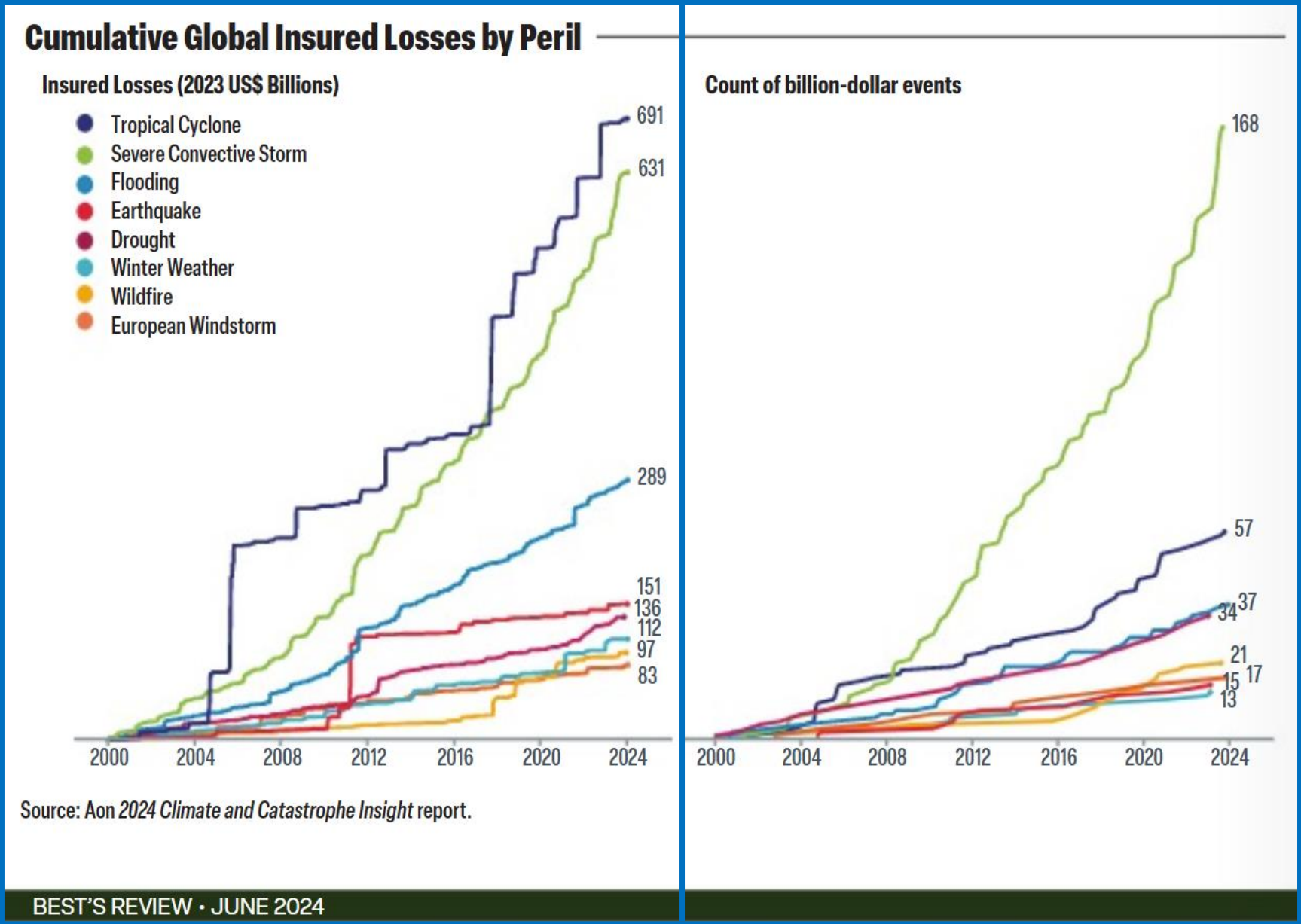
Secondary Perils Become a Primary Headache

Secondary perils—such as severe convective storms, hail, snowstorms, drought and flooding—have become more significant problems for insurers. Page 38

NLC NATIONAL LEAGUE OF CITIES
NLC-RISC RISK INFORMATION SHARING CONSORTIUM

 **HCA**
ASSET MANAGEMENT

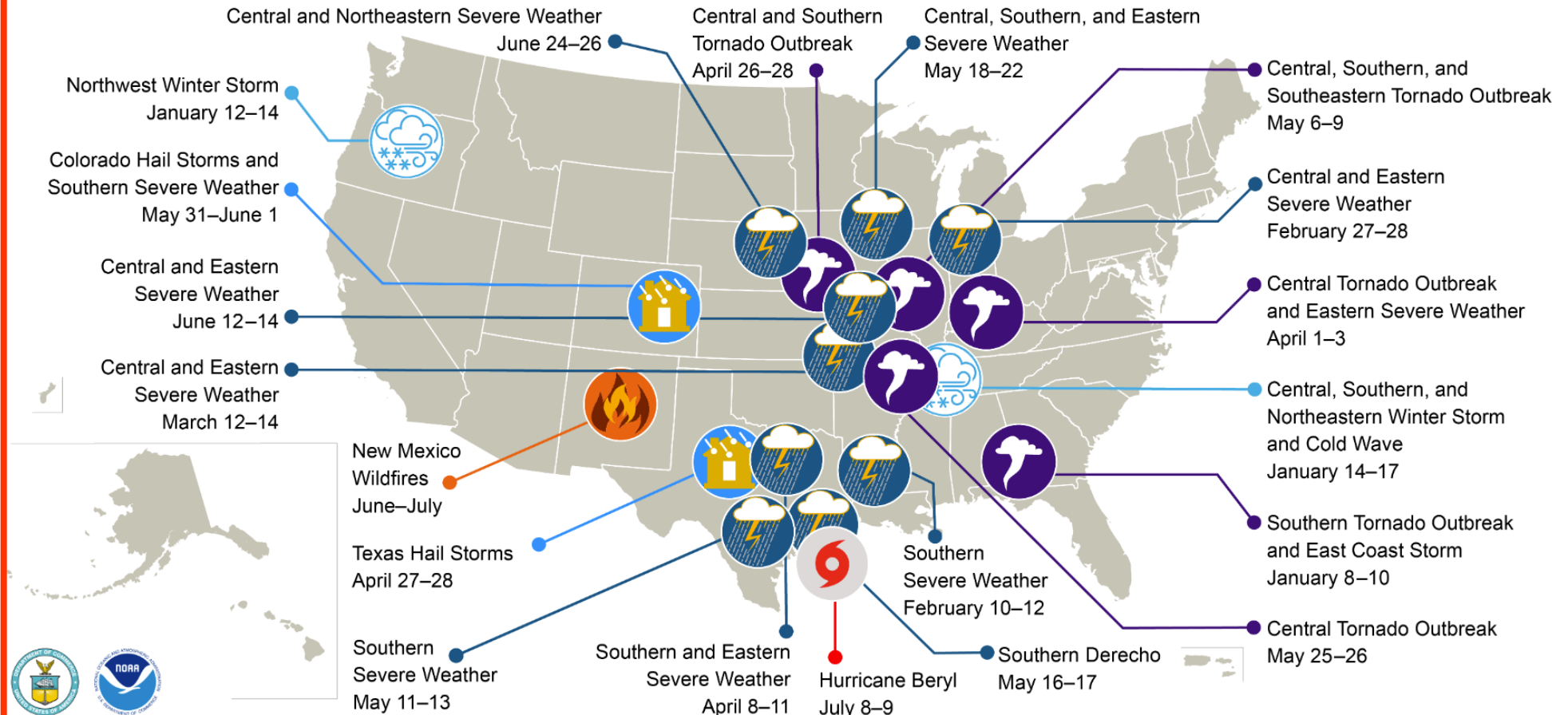
Climate Considerations – Severity / Frequency



Climate Considerations – 20 & counting

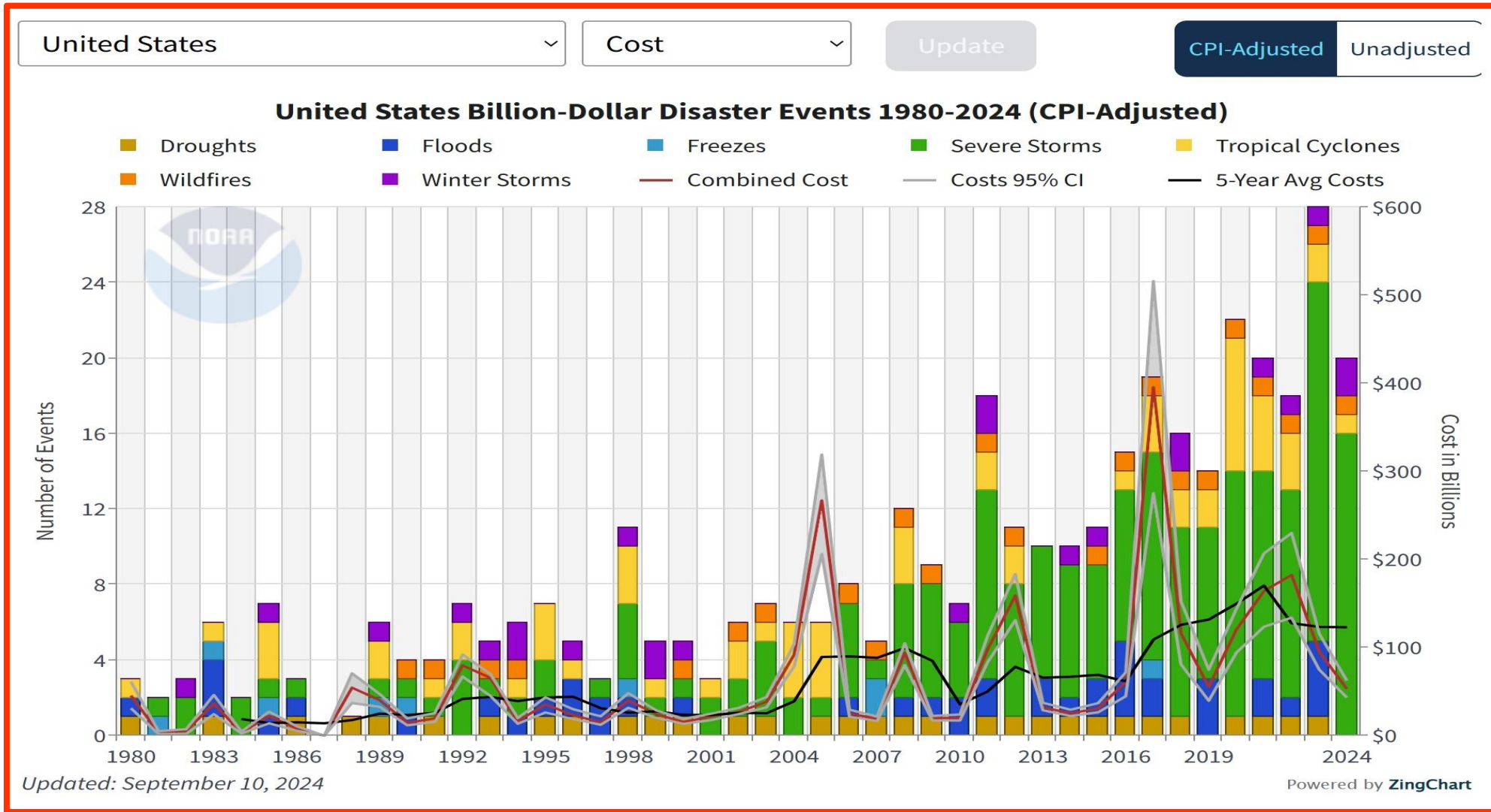
U.S. 2024 Billion-Dollar Weather and Climate Disasters

-  Drought/Heat Wave
-  Flooding
-  Hail
-  Severe Weather
-  Tornado Outbreak
-  Tropical Cyclone
-  Wildfire
-  Winter Storm/Cold Wave



This map denotes the approximate location for each of the 20 separate billion-dollar weather and climate disasters that impacted the United States through August 2024.

Climate Considerations



Zywave Professional Front Page News - Wednesday, September 18, 2024

US P/C insurers score a \$3.8B underwriting profit for first-half 2024

US P/C industry saw \$22bn underwriting loss in 2023: AM Best

⚡ 2nd July 2024 - Author: Beth Musselwhite

 **Reinsurance News**

Best's News & Research Service - March 22, 2023 07:54 AM (EDT)

[SPECIAL REPORT](#)

Best's Special Report: U.S. Property/Casualty Industry Suffers \$26.5 Billion Underwriting Loss in 2022

March 22, 2023 07:54 AM (EDT)

Underwriting Trends

BUSINESS INSURANCE®

(<https://www.businessinsurance.com>)

Commercial insurance rate increases moderate in third quarter

by Claire Wilkinson 10-8-24

Commercial property rates rose 5.7%, compared with 7% in the second quarter





II. Property Value Trends – Four Years of Ascent

Annual Cost of Construction - History



Producer Price Indexes

☆ **Producer Price Index by Commodity: All Commodities** (PPIACO)

DOWNLOAD

Observation:
Jul 2024: 257.723
(+ more)
Updated: Aug 13, 2024 7:52 AM CDT

Units:
Index 1982=100,
Not Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max

1980-01-01 to 2024-07-01

EDIT GRAPH



48% INCREASE

Annual Cost of Construction - History

BUREAU OF LABOR STATISTICS Producer Price Indexes

☆ Producer Price Index by Commodity: Special Indexes: **Construction Materials** (CPUS1012011)

DOWNLOAD

Observation:
Jul 2024: 326.301
(+ more)
Updated: Aug 13, 2024 7:50 AM CDT

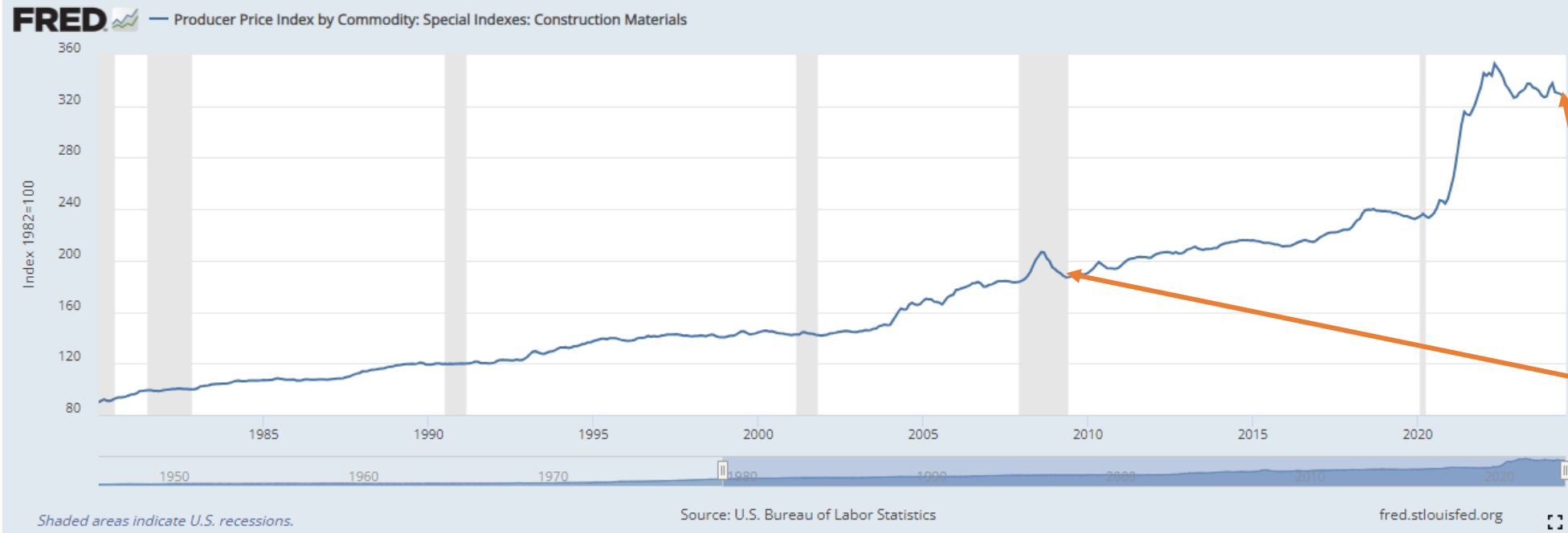
Units:
Index 1982=100,
Not Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max

1980-01-01 to 2024-07-01

EDIT GRAPH



74% INCREASE

Cost of Construction – Component of Focus

Producer Price Index, July 2024

	1-Month % Change	12-Month % Change	Change Since Feb 2020
Inputs To Industries			
Inputs to construction	0.4%	1.1%	39.9%
Inputs to multifamily construction	0.2%	1.8%	39.7%
Inputs to nonresidential construction	0.4%	0.8%	40.2%
Inputs to commercial construction	0.2%	0.7%	40.5%
Inputs to healthcare construction	0.2%	1.0%	40.4%
Inputs to industrial construction	0.3%	1.8%	37.0%
Inputs to other nonresidential construction	0.5%	0.7%	40.0%
Inputs to maintenance and repair construction	0.5%	1.3%	38.3%
Commodities			
Adhesives and sealants	0.1%	0.2%	34.2%
Brick and structural clay tile	0.1%	4.8%	31.0%
Concrete products	0.0%	4.6%	38.2%
Construction machinery and equipment	0.2%	2.4%	30.3%
Construction sand, gravel, and crushed stone	0.5%	7.4%	36.2%
Copper wire and cable	-3.1%	13.9%	49.4%
Crude petroleum	5.5%	10.4%	68.3%
Fabricated structural metal products	0.1%	-1.0%	49.4%
Gypsum products	0.4%	4.0%	48.0%
Hot rolled steel bars, plates, and structural shapes	-0.7%	-8.0%	40.8%
Insulation materials	0.1%	5.6%	45.7%
Iron and steel	-1.8%	-9.6%	44.8%
Lumber and wood products	-0.5%	-3.0%	23.8%
Natural gas	13.3%	0.1%	41.1%
Plumbing fixtures and fittings	0.7%	1.5%	19.3%
Prepared asphalt, tar roofing and siding products	0.4%	1.2%	42.9%
Softwood lumber	-1.8%	-13.1%	5.7%
Steel mill products	-3.3%	-14.0%	51.2%
Switchgear, switchboard, industrial controls equipment	0.5%	7.4%	47.5%
Unprocessed energy materials	6.2%	8.3%	77.8%

Source: U.S. Bureau of Labor Statistics

Materials Costs

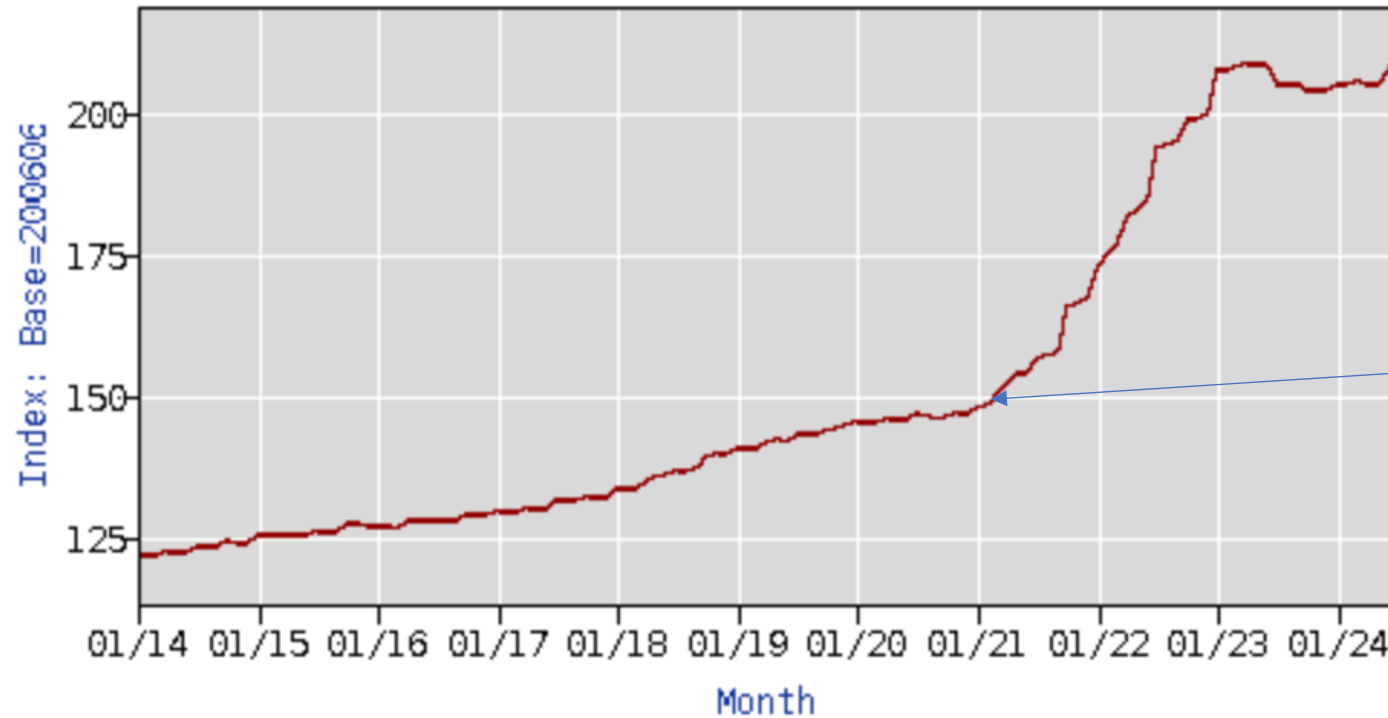
Occupancies

Specific Materials

Annual Cost of Construction - History

PPI Industry Data

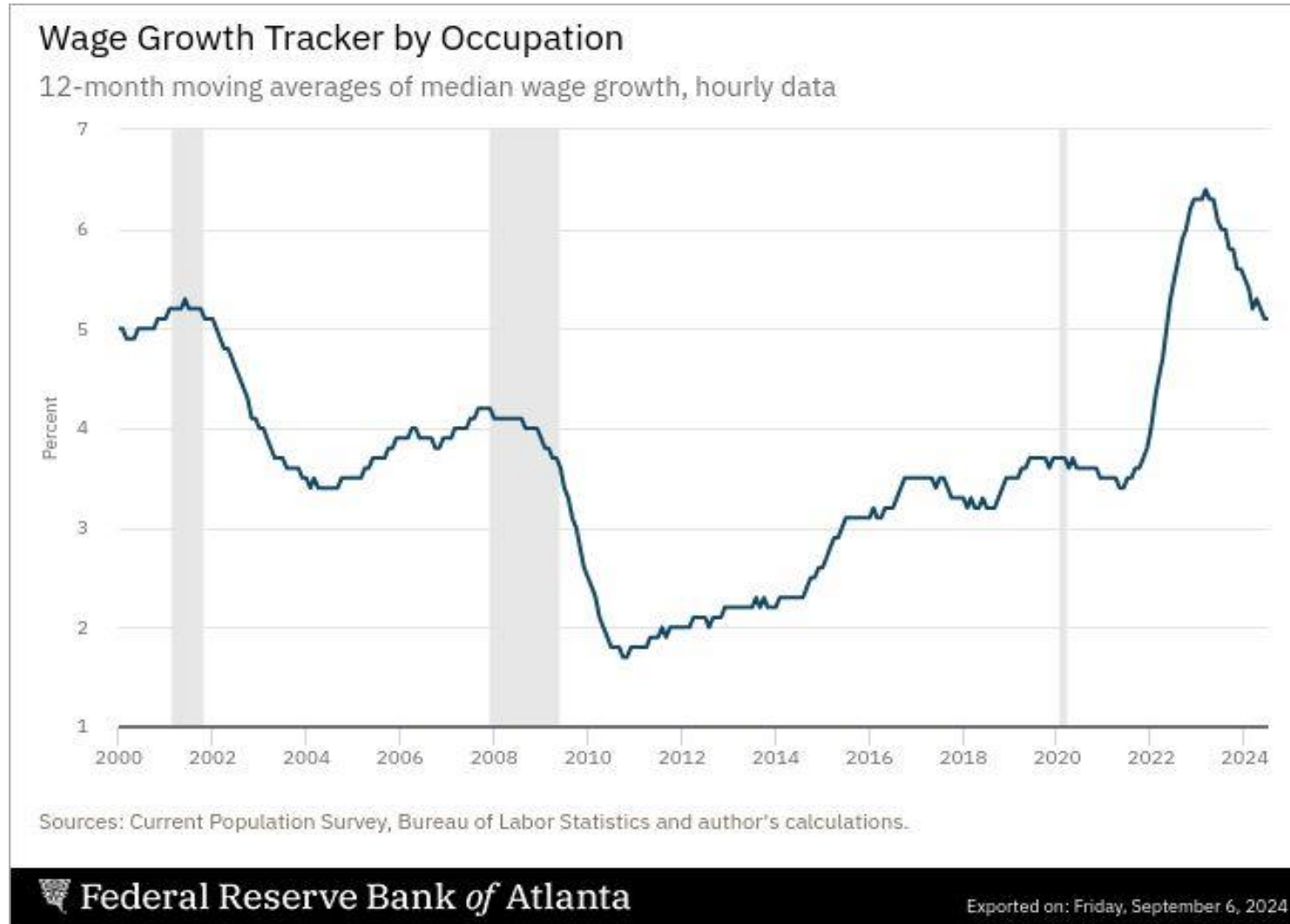
Series Id: PCU236223236223
Series Title: PPI industry data for New office building construction, not seasonally adjusted
Industry: New office building construction
Product: New office building construction
Base Date: 200606



42%
Increase;
3 ½ Yrs

Cost of Construction – Overlooked Component

➤ Construction Labor Cost - % Change



Valuation Trends – What's (still) **HOT**?



III. Keeping ALL your Cars on the Tracks



Leasehold Improvements:

- You lease from Others
 - What does **YOUR** lease say???
- Others lease from You
 - What does **THEIR** lease say??
- Who is responsible for improvements made to space???
- Is all the FF&E accounted for???
- “Contents Only” locations are frequently under- improperly valued

2024 National Average Costs 

Moderate

Predominantly open office floor plan with small to medium-size workstations (6x6 or 6x8). Less than 20% offices. Overall 70/30 split between office/workstations seats and collaborative space

\$237



- Estimating Options
 - Members/Insureds Report
 - Detailed Inventory (Appraisal)
- Areas of Concern
 - Unreported / Underreported exposures
 - Synthetic Surfaces
 - Ballfields / Athletic Complexes
 - Playgrounds
 - Pedestrian Bridges
- Trending?



Property Classifications – ABC

General BUILDING/STRUCTURE Characteristics (if a piece of property has at least two of the following, it is probably a Building by ABC definition):

- Structural walls and roof covering
- Slab
- Building services (electric, HVAC, plumbing)
- Some form of foundation
- Some form of human occupancy (even temporary)
- Material value

Common examples:



NOT considered a Building (PITO)



WOULD BE classified as Building (not PITO)



NOT considered a Building (PITO)



WOULD BE classified as Building (not PITO)

Note: the structures pictured at right both have slab, foundations, electrical service and walls. The dugout pictured at left does have a roof, but fails to exhibit any other "Building" characteristics (including materiality). The storage building pictured lower left is temporary/portable and would generally be classified as PITO.

Prepared by HCA Asset Management, LLC for ABC – February 20XX

Property Classifications – ABC

Items typically classified as insurable PITO:

- Fencing and gates (all materials), including backstops and fenced dugouts
- Guardrails and bollards
- Small, portable storage units
- Retaining walls
- Signage
- Airport improvements (beacons, approach lights, etc.)
- Small piers, including floating, and boardwalks
- Yard lighting
- Ballfield lighting
- Scoreboards
- Playground structures and equipment
- Movable seating and bleachers
- Goals – football, soccer, etc.
- Flagpoles
- Warning sirens (pole-mounted)
- Small radio towers (less than 100')
- Fuel tanks (above and below ground) and pumps
- Synthetic athletic fields and surfaces – football/soccer, baseball, tennis, etc.
- Synthetic track surfaces
- Pedestrian bridges – park and trail
- Outdoor hockey rink racer boards and fencing
- Minor equipment/improvements such as bike racks, BBQ sets, picnic tables, refuse containers, water fountains; batting cages;
- Items located throughout jurisdictional limits and grouped together: street lighting; hydrants; meters; transformers (pole-mtd); electric distribution line/poles (above ground); traffic control signals, walk signs; bus shelters

Note: If any of the above are physically attached to a Building, the value should be added to that Building.

PITO items typically considered not insurable:

- Infrastructure, c/o roadways/streets; sewer collection lines and interceptors; storm water collection systems and retention basins; water distribution piping; in-ground gas and/or electric distribution systems.
- Concrete paving & driveways;
- Asphalt paving
- Curb & gutter
- Landscaping

Prepared by HCA Asset Management, LLC for ABC – February 20XX

Property Classifications – ABC

Items typically classified as Building / Structure:

- Pump stations and all related Process Equipment (booster, other fresh water)
- Wells and all related Process Equipment, including freestanding wells
- Lift station structures and related Process Equipment, including:
 - Submersible stations
 - Packaged / can-style stations
 - Above ground lift stations with below grade wet/dry well areas
- Water storage tanks, including:
 - Elevated tanks
 - Ground / surface tanks
 - Reservoirs
- Permanent shelters, canopies, pavilions, storage buildings, band shells and gazebos
- Freestanding, outdoor backup generators serving multiple structures (typically large, found at treatment plants or maintenance facilities).
- Electric substations (including control structures, transformers and related structures and distribution equipment located inside the fenced area)
- Bridges - vehicular, including covered bridges
- Truck scales (landfill) with control houses
- Large piers and marina structures
- Stadium seating - permanent, especially with interior construction
- Concessions stands
- Permanent dugout structures, typically with masonry walls and slab
- Press box structures (mounted on permanent seating)
- Swimming pools, including filtration, chemical treatment, heating and related equipment; and other related aquatic park structures such as tot- and zero-depth pools, and related fixed features and slides.
- Communications towers (100' and greater); freestanding or guyed structures
- WWTP Lagoons, including all liners and riprap, and soil/subsoil embankments
- In-plant (underground) piping, located within the areas of wastewater and water treatment plants

Prepared by HCA Asset Management, LLC for ABC – February 20XX

- Estimating Options
 - Members Report
 - Desktop



The Crazy World of Buying Apparatus Now

Departments spec'ing new rigs must be prepared for potential delivery dates of 36 to 48 months, and parts procurement challenges.

7.18.2023

FIRE APPARATUS & EMERGENCY EQUIPMENT

- Areas of Concern

- Items reported by member at cost (invoice may reflect trade-in)

- Extreme lead time for orders (i.e. ~3 yrs!!)

- Options included on vehicle (think police)

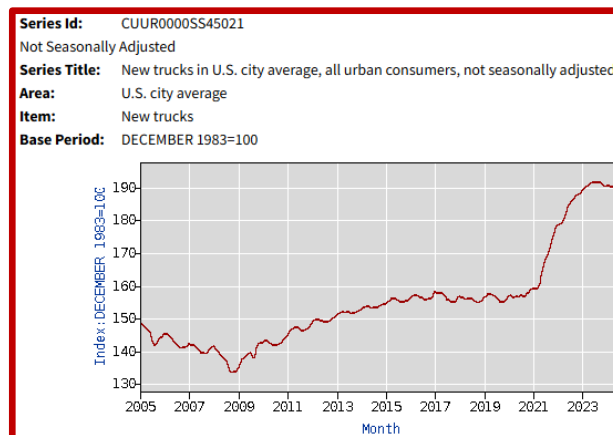
- Stay on SOV at cost indefinitely

- High-value Items

- Fire Apparatus

- Ambulances

- Trending?



Mobile Property Values:



- Estimating Options
 - Members Report
 - Desktop
 - Detailed Tally / Inventory
- Areas of Concern
 - Items reported by member at cost (invoice may reflect trade-in)
 - Items stay at cost indefinitely
 - High-value contractors' equipment (i.e. JD, Cat, Case...)
 - Mobile Property vs. Contents – don't double-dip / omit
- Trending?



- Estimating Options
 - Members/Insureds Report
 - % of Bldg \$
 - “Modeling” (Appraisal)
 - Detailed Tally / Inventory
- Areas of Concern
 - High density areas
 - High tech areas
 - Supplies / stockroom
 - Removing leased areas?
 - Mobile Property vs. Contents
- Trending?



- Plant Piping (In-ground, valve / meter vaults, manholes)
- Bridges (vehicular / pedestrian / covered / historic)
- Plant Electrical (Ductbank, vaults, manholes)
- Airport Improvements / Runways / Lighting
- Piers / Wharves / Revetments
- Traffic Signals / Street Lights
- Tennis / Pickleball Courts
- Communications Towers
- Lagoons (WWTP)
- Paving, Curb & Gutter
- Retaining Walls
- Landscaping
- Dams (BOO!)



HCA Asset Management, LLC
CLARK CO. WATER RECL DISTRICT
Insurance Detail Report As of date: 4/19/2024

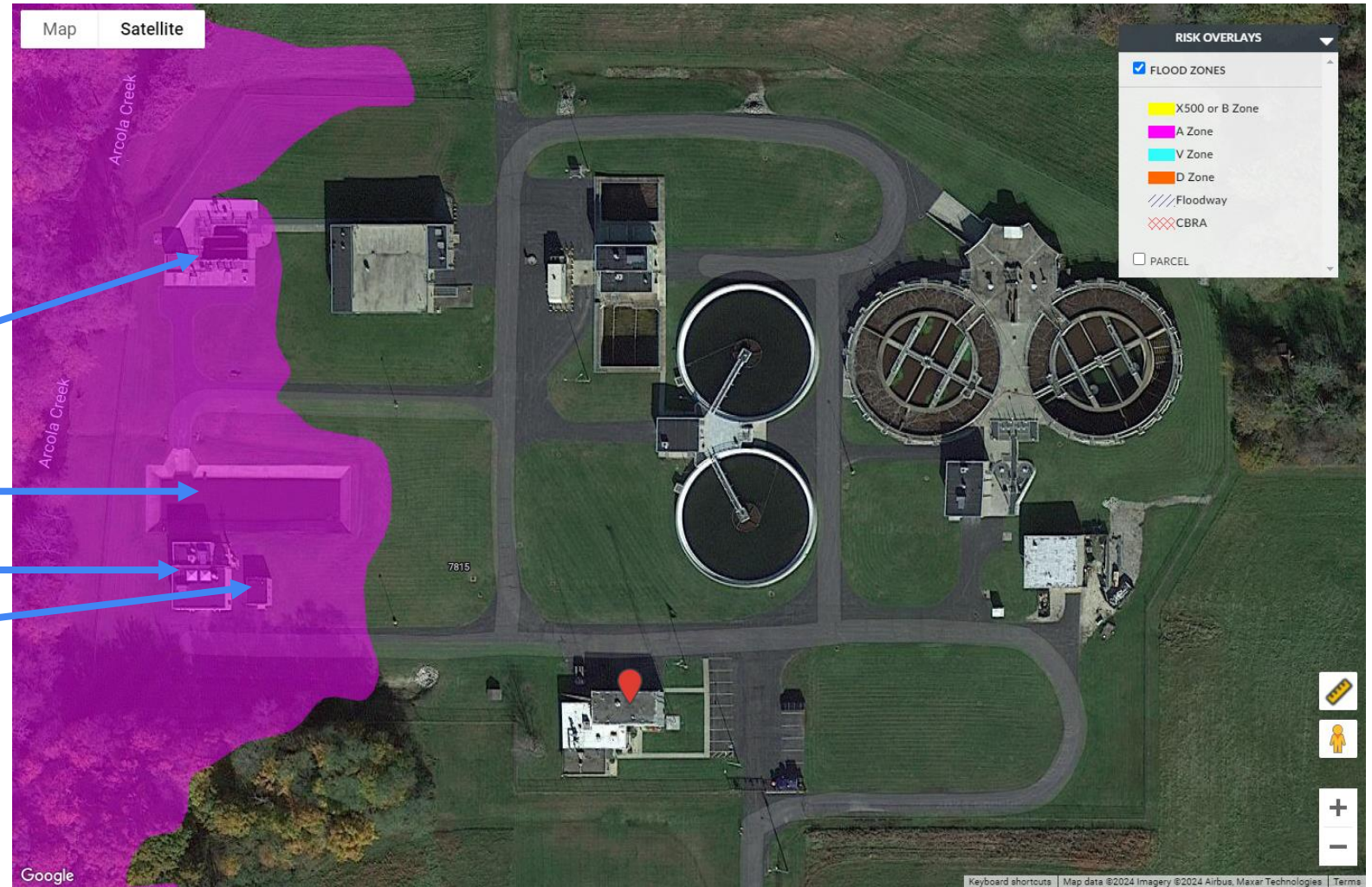
ENTITY:	COWRD CLARK CO. WATER RECL DISTRICT	ISO CONSTRUCTION CLASS:	FIRE RESISTIVE																		
SITE:	AWT Flamingo Water Resource Center - East Campus	FRAMING:	REINFORCED CONCRETE																		
BUILDING:	11P MEMBRANE BUILDING	DATE OF CONSTRUCTION:	2014																		
ADDRESS:	4300 SOUTH HOLLYWOOD BLVD LAS VEGAS, NV 89122	ADDITIONS (YES-YR OR NO):	0																		
OCCUPANCY:	WW TREATMENT PLANT	RENOVATIONS (YES-YR OR NO):	2017																		
FIRE PROTECTION AND SAFETY:	AUTO FIRE PROTECTION/ALARM SYS. EMERGENCY LIGHTING EXIT LIGHTING MANUAL FIRE ALARM PULL STATIONS	NUMBER OF STORIES:	1																		
SPRINKLERED (YES-% OR NO):	NO	GROSS/BASEMENT SF:	17,249 / 8799																		
FOUNDATION:	CONCRETE FOOTING CONCRETE SLAB CONCRETE WALLS	ELEVATION (FT):	1677																		
EXTERIOR WALLS:	CONCRETE PANEL-PRECAST CONCRETE-REINFORCED/POURED	FLOOD ZONE:	X																		
ROOFING:	SINGLE PLY MEMBRANE	LATITUDE/LONGITUDE:	36.113162°N 115.025055°W																		
PARTITION WALLS:	CONCRETE BLOCK CONCRETE-REINFORCED																				
CEILING:	NONE/EXPOSED DECK																				
BUILDING SERVICES:	AIR CONDITIONING ELECTRIC HEATING PLUMBING VENTILATION	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">BUILDING</td> </tr> <tr> <td>REPLACEMENT COST NEW (RC):</td> <td style="text-align: right;">\$10,xxx,xxx</td> </tr> <tr> <td>EXCLUSION AMOUNT:</td> <td style="text-align: right;">\$507,085</td> </tr> <tr> <td>RC MINUS EXCLUSIONS:</td> <td style="text-align: right;">\$9,xxx,xxx</td> </tr> <tr> <td>PROPERTY IN THE OPEN:</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td colspan="2">PERSONAL PROPERTY:</td> </tr> <tr> <td>CONTENT VALUE:</td> <td style="text-align: right;">\$31,yyy,yyy</td> </tr> <tr> <td>EDP:</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>PERSONAL PROPERTY TOTAL:</td> <td style="text-align: right;">\$31,yyy,yyy</td> </tr> </table>		BUILDING		REPLACEMENT COST NEW (RC):	\$10,xxx,xxx	EXCLUSION AMOUNT:	\$507,085	RC MINUS EXCLUSIONS:	\$9,xxx,xxx	PROPERTY IN THE OPEN:	\$0	PERSONAL PROPERTY:		CONTENT VALUE:	\$31,yyy,yyy	EDP:	\$0	PERSONAL PROPERTY TOTAL:	\$31,yyy,yyy
BUILDING																					
REPLACEMENT COST NEW (RC):	\$10,xxx,xxx																				
EXCLUSION AMOUNT:	\$507,085																				
RC MINUS EXCLUSIONS:	\$9,xxx,xxx																				
PROPERTY IN THE OPEN:	\$0																				
PERSONAL PROPERTY:																					
CONTENT VALUE:	\$31,yyy,yyy																				
EDP:	\$0																				
PERSONAL PROPERTY TOTAL:	\$31,yyy,yyy																				
FLOORING:	CONCRETE/W SEALER																				
BUILDING FEATURES:	AUTOMATIC DOOR OPENERS CRANE/HOIST - CEILING MTD OVERHEAD BAY DOORS RAILINGS UNIQUE - SEE NARRATIVE BELOW																				
BUILDING NOTES:	PROJECT #586 - 1ST FLOOR OPERATION LEVEL (TOP OF MEMBRANE TANKS) IS 8,450 SF; GALLERY LEVEL INCLUDES STUBBED-OUT TUNNEL SECTION, PLUS LOWEST LEVEL BASEMENT TOTALS 8,799 SF. PROCESS EQUIPMENT INCLUDES GE ZENON MEMBRANE SYSTEM WITH (12) CELLS AND (4) PLC CONTROL PANELS; 5-TON AMQUIP BRIDGE CRANE; (2) 15HP GOULDS FILTRATE TRANSFER PUMPS; (12) 50HP FLOWSERVE FILTRATE PUMPS; FRP, STEEL AND STAINLESS STEEL PIPING, FITTINGS AND VALVES LOCATED THROUGHOUT GALLERY AND LOWER BASEMENT AREAS OF PLANT.																				

- Process Equipment vs. Structure
- Accurate valuations require detailed inventory
- Individual structure listing allows Flood / Elevation analysis



➤ Individual structure listing allows Flood / Elevation analysis

- Chlorine Contact / Effluent Structures
- Settling Basin
- Pump Station
- Electrical Building



Quality of Underwriting Data

Construction

Frame, Masonry, Masonry Veneer, Superior Construction, Mixed—Masonry/Frame

Occupancy

How The Building Is Being Used For Commercial Property And Whether It Is Owner-occupant Or Renter-occupied For Homeowners And The Number Of Families For Which The Building Is Designed

Protection

Quality Of The Responding Fire Department (Incl. Whether Paid/Volunteer, Adequacy Of Water Pressure And Water Supply In The Community, Distance Of The Structure To The Nearest Fire Station, Quality Of The Fire Hydrant, And The Distance Of The Structure To The Nearest Hydrant

Exposure

Risks Of Loss Posed By Neighboring Property Or The Surrounding Area, Taking Into Consideration What Is Located Near The Property, Such As An Office Building, A Subdivision, Or A Fireworks Factory.

CAT Loss Models

“All models are wrong – but some are useful.”
-- George Box

➤ Traditional Modeling

- **RMS** (Moody's)
 - **AIR** (Verisk/ISO)
 - **EQECAT** (CoreLogic)
- Who Uses Them? **Every Major Insurer / Reinsurer**
- Why? **Large Portfolios of Property Analyzed & “Modeled”**



DATA



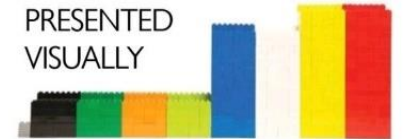
SORTED



ARRANGED



PRESENTED VISUALLY



EXPLAINED WITH A STORY



BUSINESS INSURANCE®

(<https://www.businessinsurance.com>)

Models seen as empowering for risk managers

by Gavin Souter

P/C INSURERS ([HTTPS://WWW.BUSINESSINSURANCE.COM/TOPIC/P-C-INSURERS/](https://www.businessinsurance.com/topic/p-c-insurers/))

HUB INTERNATIONAL ([HTTPS://WWW.BUSINESSINSURANCE.COM/COMPANY/HUB-INTERNATIONAL/](https://www.businessinsurance.com/company/hub-international/))

Sep 23, 2024(<https://www.businessinsurance.com/2024/09/23/>)



BUSINESS INSURANCE

WEDNESDAY, SEPTEMBER 25, 2024



Breaking News Alert



Hurricane Helene insured losses projected at \$3B-6B

Hurricane Helene is being projected to cause some \$3 billion to \$6 billion in insured losses, according to a report Thursday from Gallagher Re, the reinsurance business of Arthur J. Gallagher & Co.

[Read More >](#)

BUSINESS INSURANCE®

Moody's estimates Helene private insured losses at up to \$14 billion

by Matthew Lerner 10/8/24

(<https://www.businessinsurance.com>)



IV. Take Control



Frequency of Appraisal Cycles

Each Organization is Unique - Decision Driven by:

- Underwriting Desires (internal)
- Composition of Insureds (internal/external)
 - Relative Size
 - Recent Loss History
 - Membership Stability Y-o-Y (Pools)
 - Economy / New Construction – much vs. little
- Budget / Board Appetite (internal)
- (re)Insurance Requirements (external)
- National / Local Construction Cost Changes (external)

~~Industry Ave: 3 – 7 Years~~

Specific Policy Language / Coverage



“Typical” Appraisal Exclusions:



- Site Preparation
- Foundations / Footing (below lowest occupied level)
- Underground Plumbing



Valuation Methodology

Replacement Cost
Value

Reproduction Cost
Value



“Replacement Cost is...” ???

“...what your POLICY says!”

Actual Cash
Value

Valuation Methodology

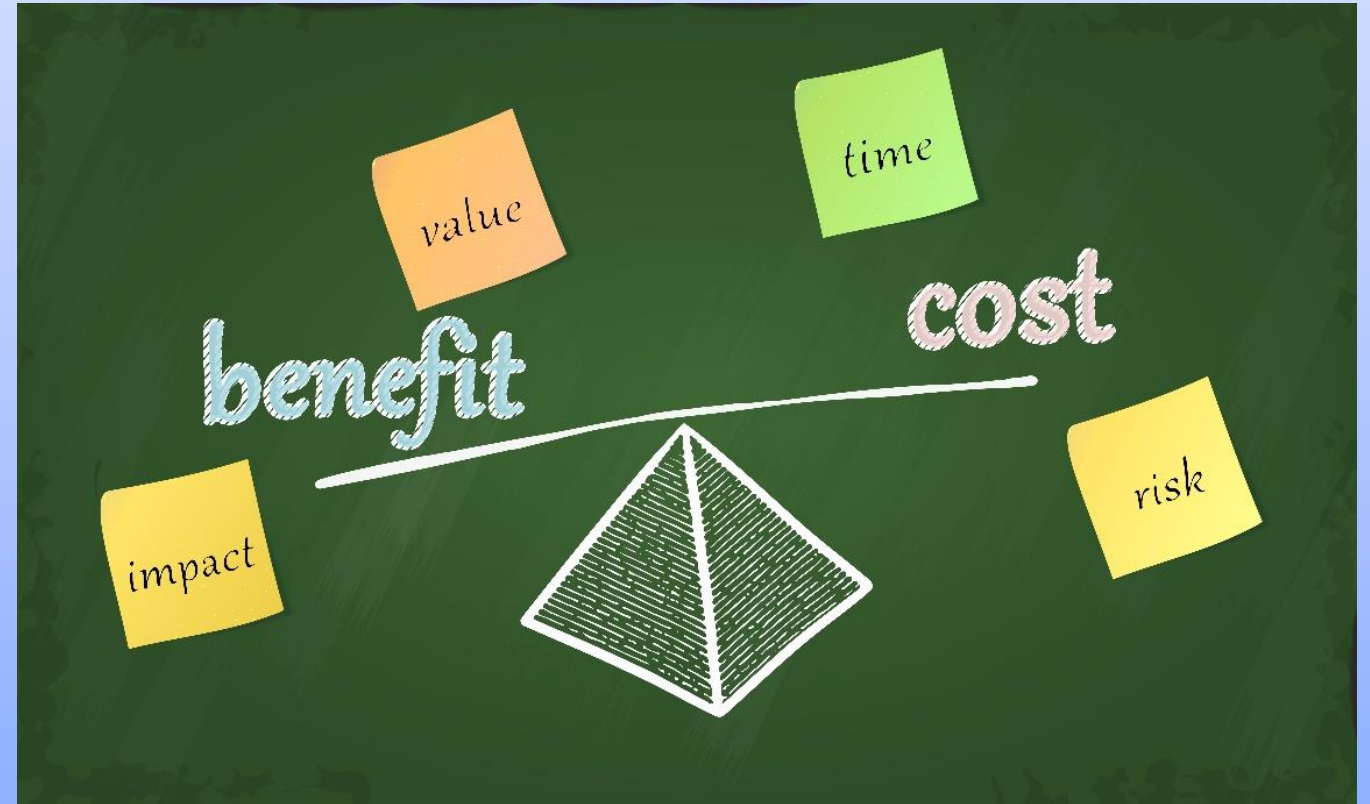
Appraisal Threshold for Structures:

- Lower Threshold = Higher Investment
- What's the Cost???

To Appraise.... vs. To Omit

HCA's Clients Range:

\$0 (all) to \$1.0 million



Valuation Methodology – Case Study

Appraisal Threshold for Structures:

- **2023 Full Cycle (\$6.8 B in TIV appraised)**
- **14.4% of all Bldgs were ADDS! (Ave >\$500k);**
- **5% of original Bldgs were REMOVED!**
- **Frequently missed:**
 - **Lift / Pump Stations; Wells (incl Generators)**
 - **Park & Other Remote Exposures**
 - **Major Additions; Significant Renovation Data**



Annual Trending of Values

Variety of Sources



Annual Trending – Art, Science or Darts???

Source #1: Handy Whitman
2020 to 2024: 1.402 (40.2%)

- Regional (West)
- Specific to W/WW

Source #2: MVS (M&S)
2020 to 2024: 1.301 (30.1%)

- Location Specific (Vegas)
- Class Specific (C/Steel frame)



Source #6: Mortenson
2020 to 2024: 1.352 (35.2%)

- Regional
- Class Non-specific (general)

Source #5: 360Value Verisk
2020 to 2024: 1.291 (29.1%)

- Location Specific (NV)
- Class Non-specific (general)

Source #3: RS Means
2020 to 2024: 1.254 (25.4%)

- Location Specific (Vegas)
- Class Non-specific (general)

Source #4: Design Cost Data (DCD)
2020 to 2024: 1.479 (47.9%)

- Location Non-specific (general)
- Class Non-specific (general)

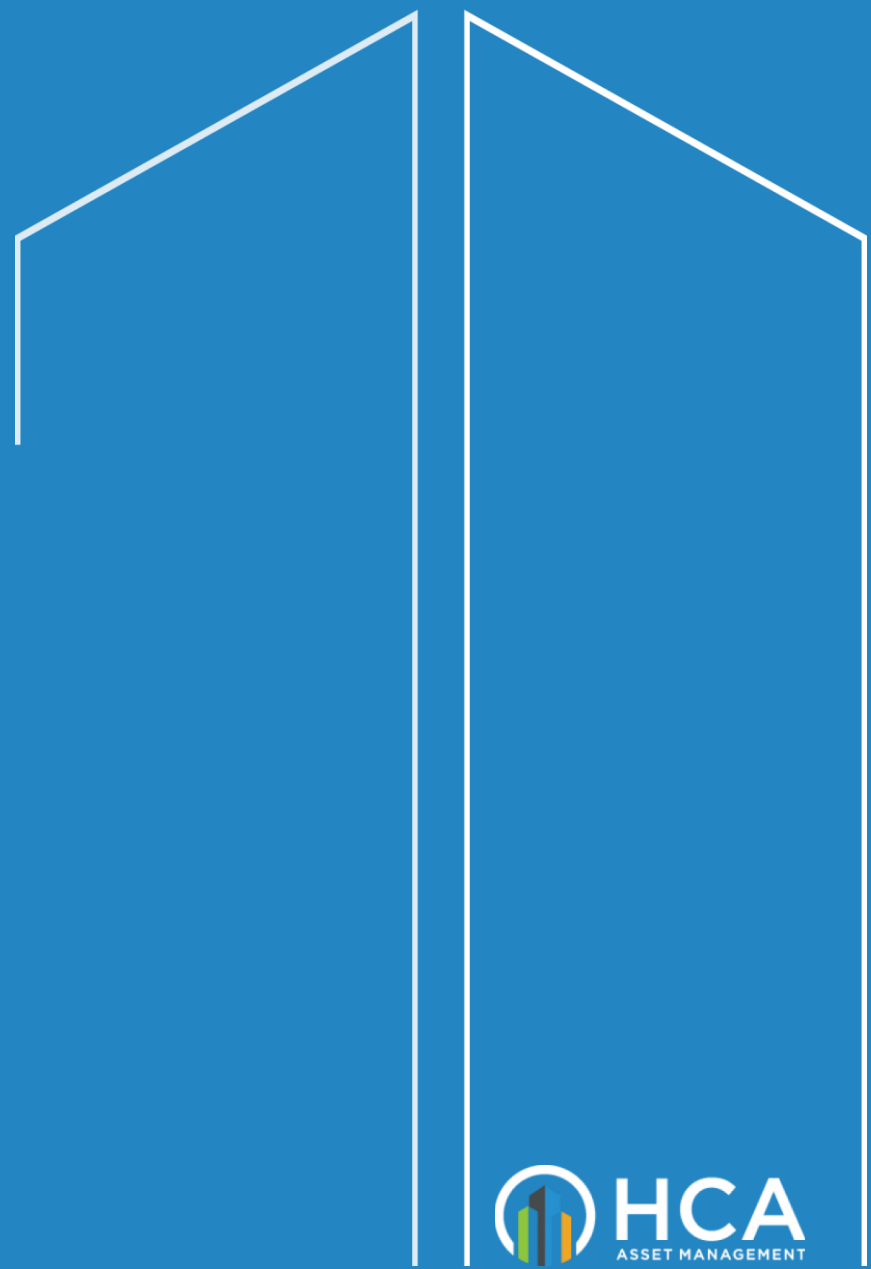
Start EARLY

Everything is Relative... BUT:

- Are you starting a NEW Program?
 - Are you planning to tweak an existing one??
 - When will reinsurers/brokers need your data???
- Establish desired timelines and work backward
- Implement reasonable milestones for you/appraiser



V. What's Around the Corner???

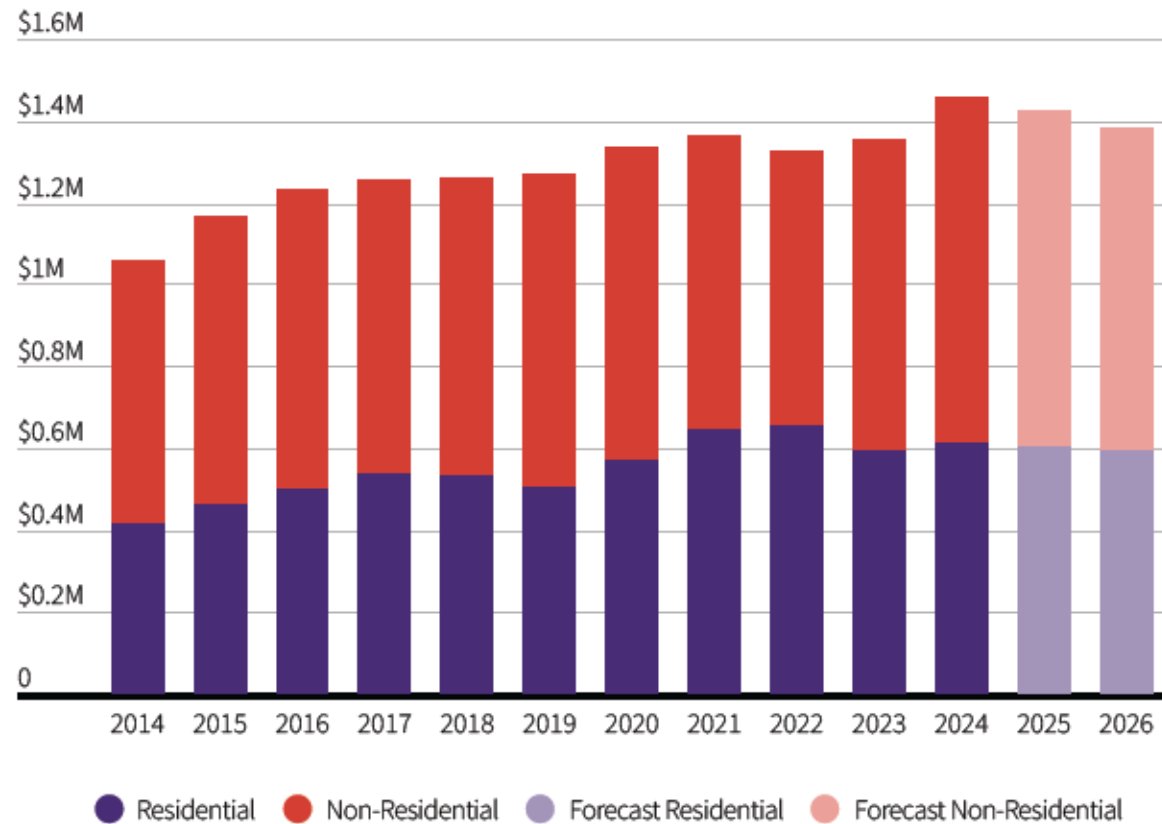


Construction Cost

What's Next - Volume

- Labor Costs
- Supply Chains
- Material Costs
- Interest Rates?
- Pandemic done?
- Infrastructure
- Recession??
- War?????

Total Construction Market Forecast
(x \$1M, Nominalized 2014)



**CUMMING
GROUP**
MARKET ANALYSIS
Q2 2024

Construction Cost

What's Next???

- Labor Costs
- Supply Chains
- Material Costs
- Interest Rates?
- Pandemic done?
- Infrastructure
- Recession??
- War?????

CONSENSUS CONSTRUCTION FORECAST, JULY 2024

Click on each name to see their forecast

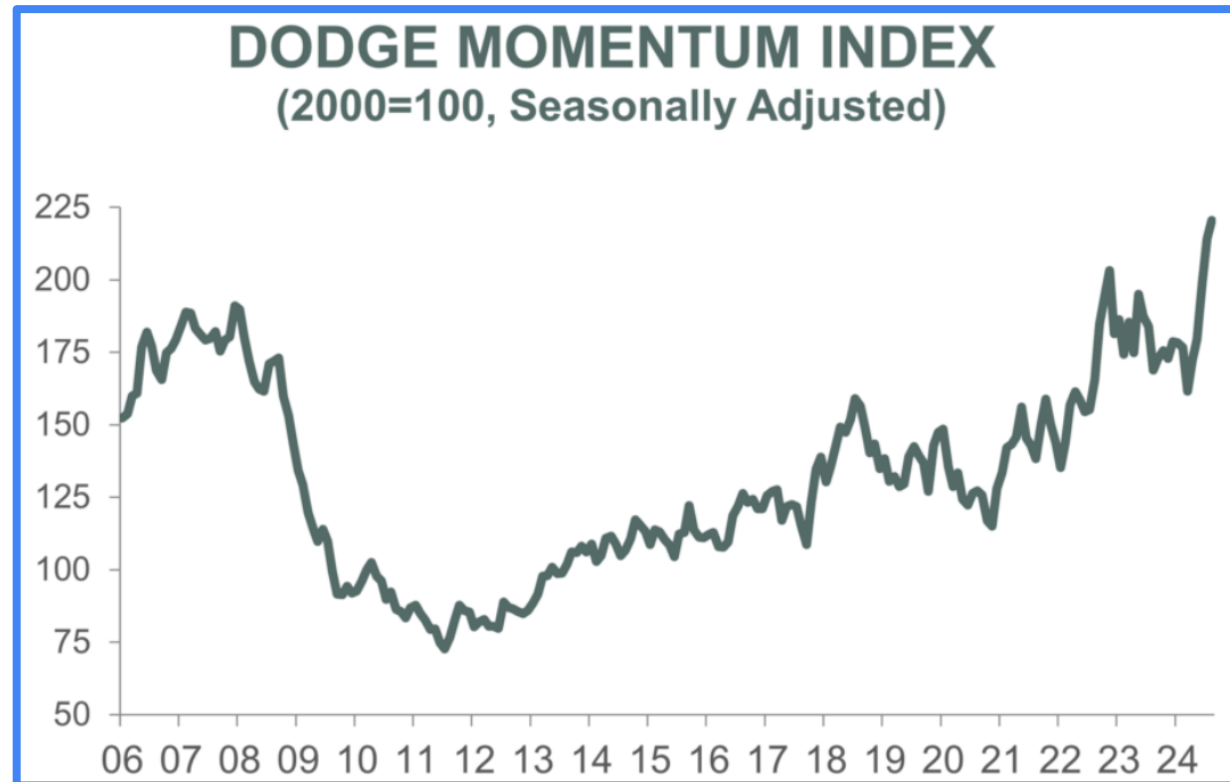
Consensus		Actual	Forecast	
		\$	% Change	
		2023	2024	2025
Dodge Construction Network	Nonresidential Total	–	7.4	2.0
S&P Global, Market Intelligence	Commercial Total	–	-0.1	1.3
	Office	–	2.8	1.0
Moody's Analytics	Retail & Other Commercial	–	-1.8	0.3
	Hotel	–	-0.3	6.6
FMI	Industrial Total	–	13.7	0.1
ConstructConnect	Institutional Total	–	10.7	4.1
	Health	–	7.3	4.0
Associated Builders and Contractors	Education	–	10.1	4.4
	Religious	–	12.5	0.8
Wells Fargo Securities	Public Safety	–	30.3	4.2
Markstein Advisors	Amusement & Recreation	–	11.7	3.9
Piedmont Crescent Capital				



Construction Cost Trends

What's Next???

- Labor Costs
- Supply Chains
- Material Costs
- Interest Rates?
- Pandemic done?
- Infrastructure
- Recession??
- War?????

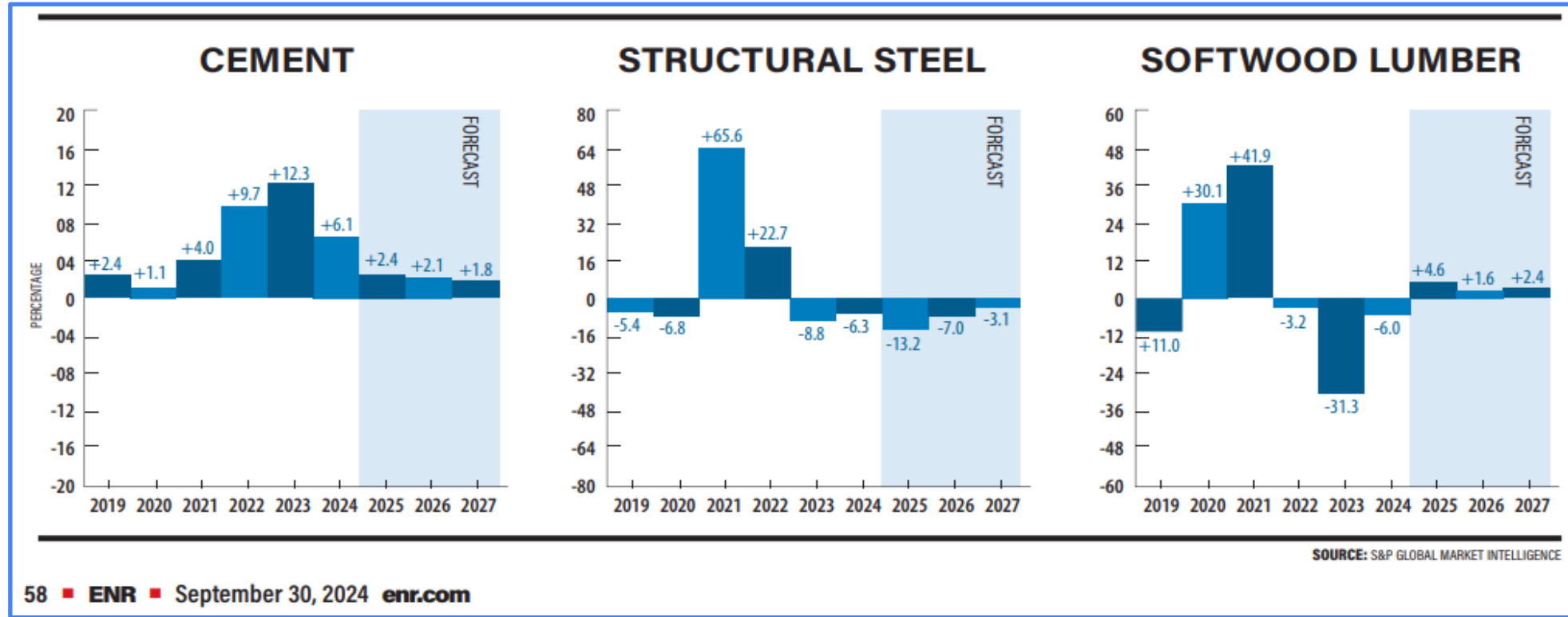


The Dodge Momentum Index serves as a leading indicator of nonresidential construction activity, with data showing a one-year lead on actual construction spending in this sector.

Construction Cost Trends

What's Next???

- Labor Costs
- Supply Chains
- Material Costs
- Interest Rates?
- Pandemic done?
- Infrastructure
- Recession??
- War?????



ENR ECONOMICS
THIRD QUARTERLY COST REPORT

Rate Cuts Expected to Spur Construction Activity in 2025

High labor costs will persist while other costs begin to decline *By Alisa Zevin*

2024 NLC-RISC Staff Conference

Burlington, VT • October 20 - 23



Thanks!
Q & A

