Gallagher
Real Estate & Hospitality Services

Insurance for the Real Estate Industry

June 6. 2011

REAL ESTATE INDUSTRY PROPERTY INSURANCE MARKET UPDATE

The first quarter of 2011 has delivered a $3.32 billion loss to the insurance market based on more than $74.5 billion of insured losses. To compare this to 2010, property losses in the first quarter of 2011 have already exceeded all of 2010. It has in fact, exhausted the global reinsurer's annual catastrophe loss budgets for the year, and this is prior to the June 1st "start date" for Hurricane season. After years of pricing declines due to abundance of capacity and major competition, reinsurers' and insurers' capital is now materially exposed to a disaster such as a major hurricane in the U.S.

The following is a synopsis of the losses of first quarter of 2011:

- Flooding in Brisbane, Australia which began December 27, 2010 and lasted through mid January affected an area the size of Texas. Cost to the industry estimated at $6 billion.

- Cyclone Yasi struck North Queensland on February 3 and resulted in a potential insured loss of up to $3.5 billion.

- A 6.3 magnitude earthquake struck New Zealand on February 22 with potential insured loss of up to $8 billion. (Previously an earthquake measuring 7.0 struck New Zealand on September 4, 2010).

- On March 11, a 9.0 earthquake struck Tohuko, Japan. By some estimates, the insured loss could reach up to $39 billion.

- In late April and early May, more than 300 tornados caused extensive damage and tragic loss of life in the South and Midwest. Insured losses are estimated at $6-8 billion.

- Flooding along Mississippi river estimated to cause $4 billion in insurable damage.

- On May 22, 2011, a tornado devastated Joplin, Missouri, causing massive loss of life and estimated insured losses of $3 billion

- May 24th Tornados in Texas and Oklahoma generating additional losses in the hundreds of millions

At the beginning of the year, reinsurance renewal rates had been down 5 to 15%. Recent insurance renewals have seen increases in CAT rates and recent

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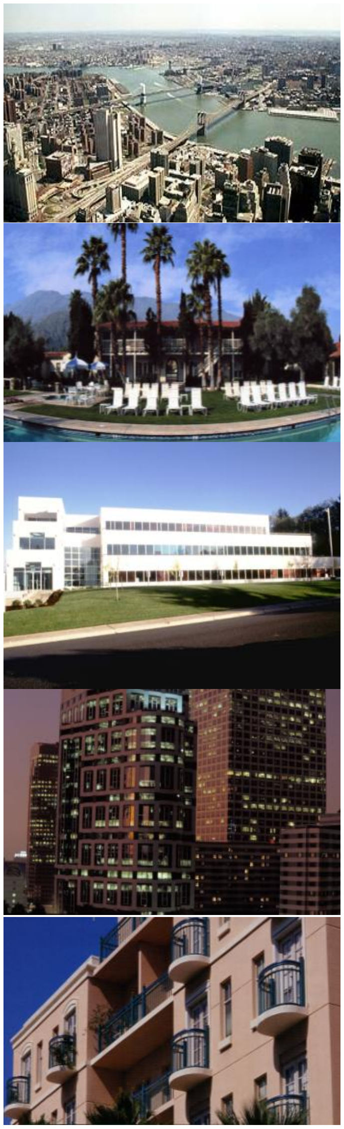

reports state that June 1 CAT treaties have seen increases of 5 to 15 percent for earthquake and wind. Given the dramatic claims in May, and the fact that June 1 marks the official beginning of hurricane season, reinsurance rates for Tier One wind are expected to continue increasing.

As of today, we see the following average trends in rates:

Non Catastrophe Exposed		**Catastrophe Exposed**	
Office	Flat—3%	Real Estate - Office	+7-12%
Multifamily	+5%	Real Estate - Multifamily	+10-15%
Industrial Flex	Flat	Industrial Flex	+8-12%
Retail	Flat	Retail	+5-10%
Hospitality	+2%	Hospitality	+5-15%

The Asset Classes that have taken the brunt of the damage and are most impacted are Multifamily and Industrial/Flex, particularly in Texas and the Southeast. Retail has also suffered material losses as has gaming in Mississippi. Loss history is the number one predictor of premium with asset class and geography a close second.

RMS version 11, the catastrophe modeling system which has become the industry standard, is new version that became implemented in April. Carriers are required by the ratings agencies to analyze their portfolio's exposures to wind losses based on the new model. The impact on carrier's accumulations is significant as it relates to wind prone areas. In the past, the impact has only been to Tier 1 or coastal counties. With the new model, the impact is being felt in Tier 2 and Tier 3 and even hundreds of miles inland. Also affected are east coast states that had received very little impact in the past. Carriers are being left with few options: increase capital reserves, buy more reinsurance or reduce their aggregate accumulations by writing less catastrophe coverage in those affected areas.

Non-CAT weather losses, such as hail, tornado and rain, have seen an increase in losses over the years. These will be receiving more focus from underwriters and there may be a movement towards higher deductibles for these perils as well as a greater emphasis on construction information relative to age and condition of roofs.

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