



FEBRUARY 2026

Insurance market improving, but challenges remain

Real estate & hospitality market update



A dynamic environment for real estate & hospitality risk professionals

Economic uncertainty and expense pressures continue to challenge real estate and hospitality companies. As performance varies across asset classes, real estate owners, developers, and investors are shifting their strategies.

From an insurance standpoint, pricing trends are consistent with what we saw through 2025. But several trends — including both macro developments and some affecting specific occupancies — are reshaping real estate risks and exposures.

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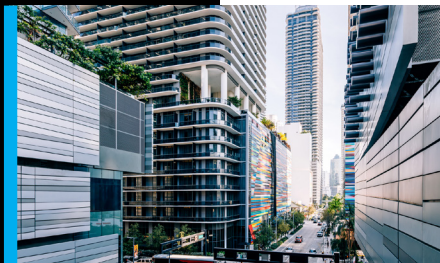
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ASSET CLASS CONSIDERATIONS

Overall softening, but uneven results

The insurance market for real estate entities continues to soften overall, most acutely in property. Increased competition by insurers has made the real estate insurance marketplace generally favorable to buyers over the past 18 months, with softening expected to continue through the summer. Property market conditions are unlikely to change in 2026, barring sudden industrywide losses or consolidation of major insurers.

Even with this overall softening, however, costs remain at levels that many property owners find challenging — and cost reductions are not being spread equally. Navigating the insurance marketplace remains difficult for certain asset classes and coverages, and primary and excess liability continues to be a notable exception in the broader, more favorable landscape.

Excess capacity for catastrophe-exposed property in the reinsurance market, coupled with a relatively benign 2025 Atlantic hurricane season, is a significant driver of favorable primary insurance pricing. The outlook for the reinsurance market is stable, with no fundamental changes in rates or terms.

On casualty risks, reinsurance is relatively stable but still driving exclusions on assault and battery (A&B) and sexual misconduct liability (SML). Casualty reinsurers are monitoring losses from third-party litigation funding, but capacity remains available.

To make informed decisions about insurance programs and obtain the best risk transfer solutions, it is as critical as ever that insureds consult risk advisors that possess deep knowledge of the real estate industry and an ability to guide them toward the best available offerings.

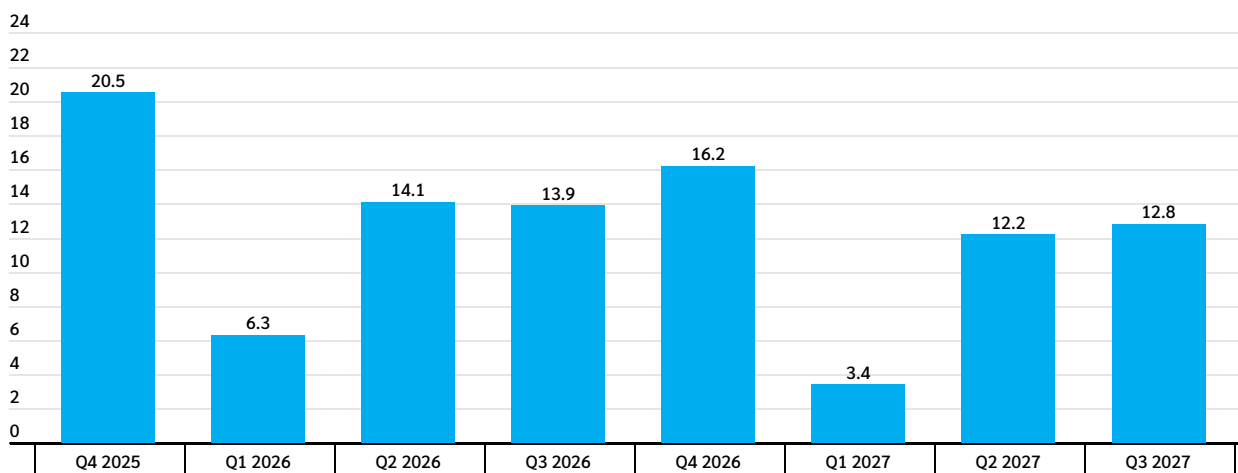
NONHABITATIONAL COMMERCIAL

Insurers competing, but applying greater scrutiny

Commercial office space has remained a difficult asset class for real estate, with quarter-over-quarter increases in vacancy rates since 2021. At the same time, total office inventory has declined, as demolitions and conversions to residential or other commercial space outpace new office construction.

Cushman & Wakefield reports the fourth quarter 2025 vacancy rate increase was the smallest in five years, suggesting a slight uptick in demand. But demand is projected to decline over the next several quarters, according to data from trade organization NAIOP. (See Figure 1.)

Figure 1: Demand for office space is forecast to slow in 2026 and 2027.



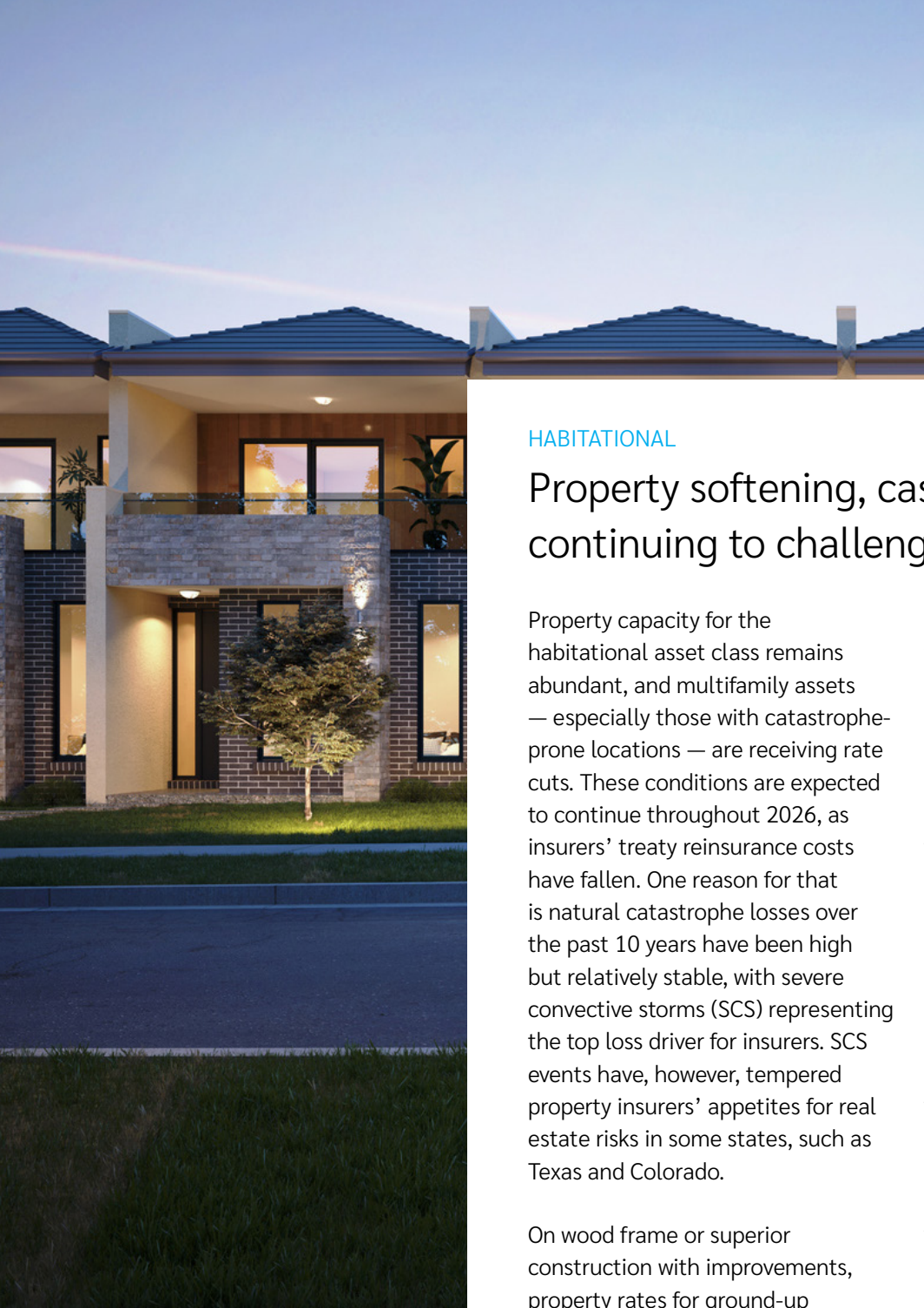
Source: NAIOP
Quarterly net absorption of office space; millions of square feet shown.

Retail properties, meanwhile, are changing — both physically and financially. Traditional shopping malls are being replaced by mixed-use developments where retail sits alongside residential and entertainment space. Depending on location, high-end luxury retail centers are performing well.

Despite these mixed macro trends, insurers are eager to write nonhabitational risks. While these trends may prompt underwriters to seek more information about real estate owners' near- and long-term strategies for commercial assets — asking, for example,

whether insurance buyers have plans for changes in tenancies or if they are exploring different uses for spaces in the future — buyers that can tell positive stories can expect significant reductions in base insurance costs.

Property rates for nonhabitational assets are down 5% to 10% at renewal on single-insurer placements, with larger decreases seen on shared and layered structures. Liability rates — for both primary and excess — are increasing due to factors we discuss in greater detail on the following pages.



HABITATIONAL

Property softening, casualty continuing to challenge buyers

Property capacity for the habitational asset class remains abundant, and multifamily assets — especially those with catastrophe-prone locations — are receiving rate cuts. These conditions are expected to continue throughout 2026, as insurers' treaty reinsurance costs have fallen. One reason for that is natural catastrophe losses over the past 10 years have been high but relatively stable, with severe convective storms (SCS) representing the top loss driver for insurers. SCS events have, however, tempered property insurers' appetites for real estate risks in some states, such as Texas and Colorado.

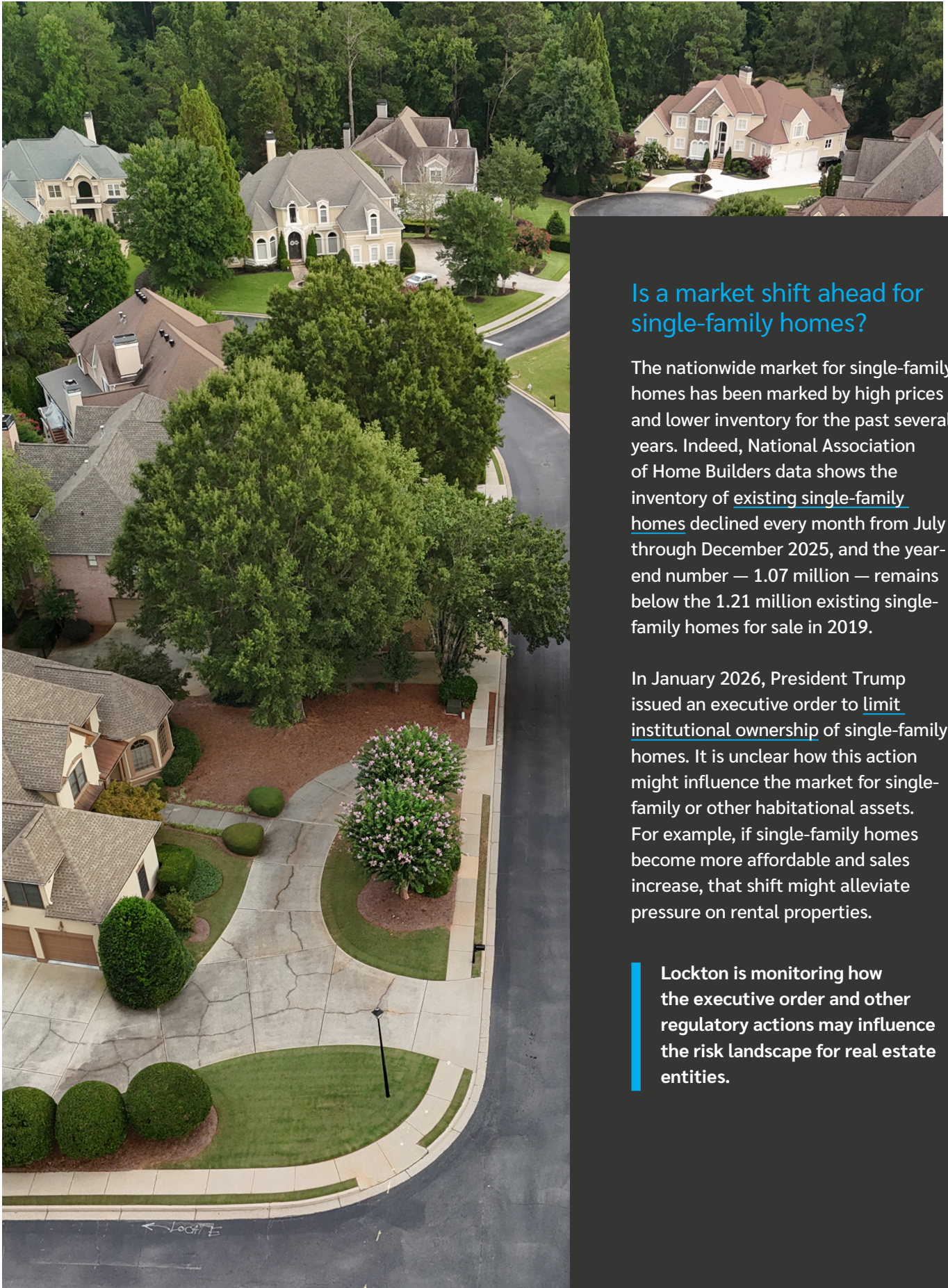
On wood frame or superior construction with improvements, property rates for ground-up coverage are down 5% to 15% at renewal. Even larger reductions of 20% to 30% are available on shared and layered property placements.

The casualty insurance market remains a challenge for habitational assets, with insurers seeking rate increases, higher self-insured retentions, compressed limits, and tighter terms. Most retail insurers

have exited the multifamily space, while others are restricting terms on habitability, A&B, and SML coverage. Wholesale insurers have retained some appetite, and new insurers are entering the space, although softening does not appear to be on the horizon in the near term.

Subclasses of multifamily housing — for example, student housing and lower-income rental assets such as Section 8 and Section 42 housing — are more difficult to place amid insurers' limited appetite for writing these risks and strict lender requirements.

Habitational lenders, particularly those backed by the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), typically require SML coverage and self-insured retentions of no more than \$25,000 in low-income housing programs. Solving these challenges increasingly requires creativity on the part of the broker.

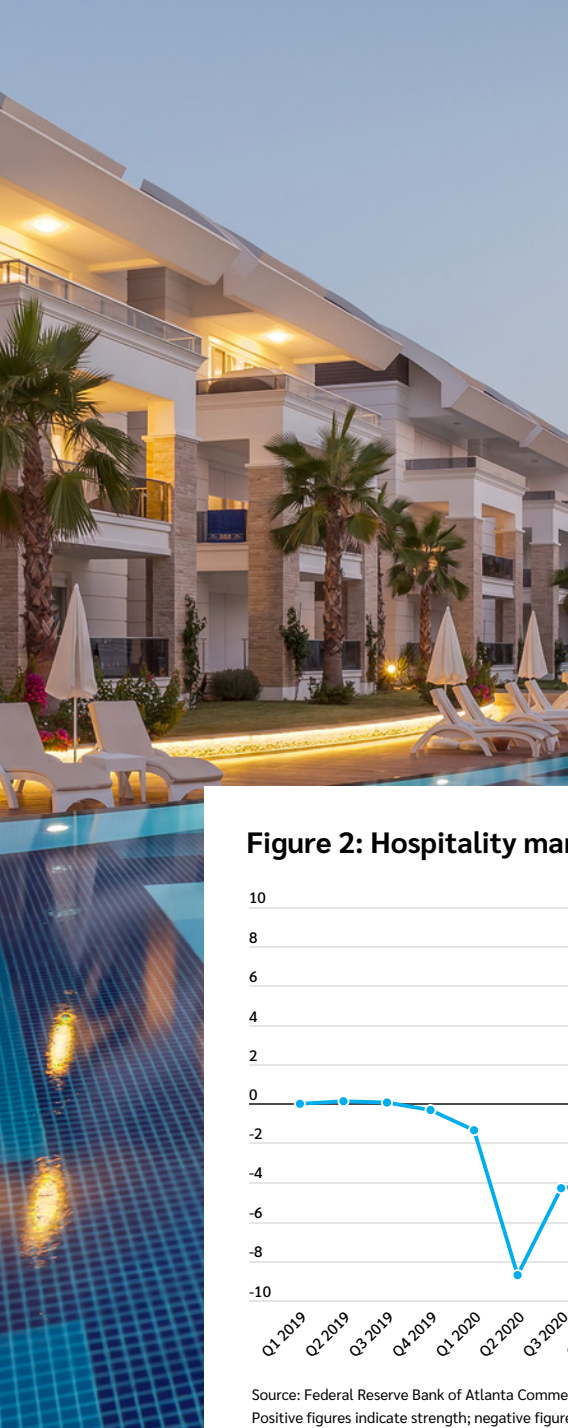


Is a market shift ahead for single-family homes?

The nationwide market for single-family homes has been marked by high prices and lower inventory for the past several years. Indeed, National Association of Home Builders data shows the inventory of existing single-family homes declined every month from July through December 2025, and the year-end number — 1.07 million — remains below the 1.21 million existing single-family homes for sale in 2019.

In January 2026, President Trump issued an executive order to limit institutional ownership of single-family homes. It is unclear how this action might influence the market for single-family or other habitational assets. For example, if single-family homes become more affordable and sales increase, that shift might alleviate pressure on rental properties.

Lockton is monitoring how the executive order and other regulatory actions may influence the risk landscape for real estate entities.

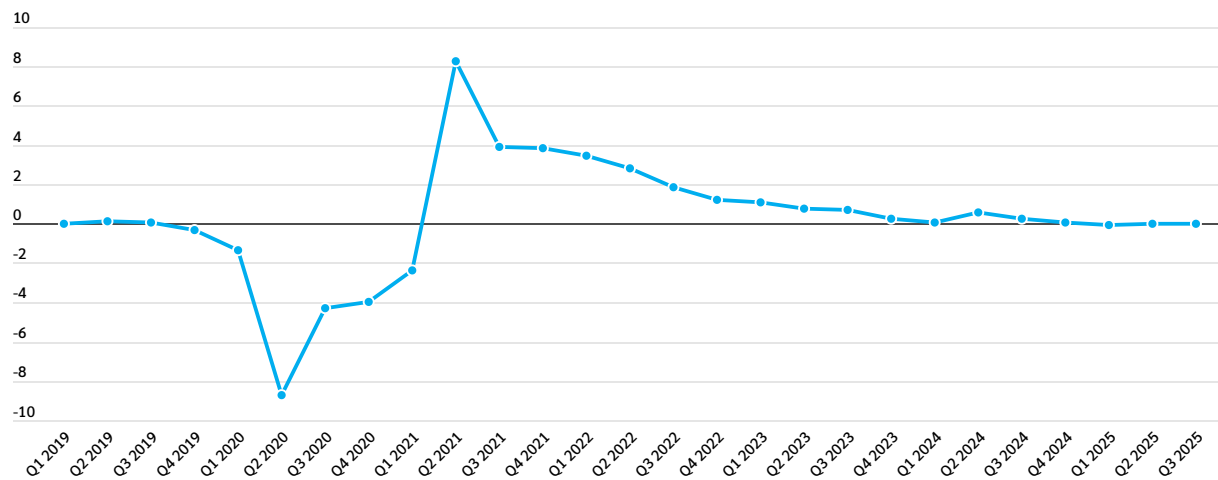


HOSPITALITY

Property bottoming out, casualty insurers concerned about crime

Although the hospitality sector has rebounded since the pandemic, the Federal Reserve Bank of Atlanta’s [Commercial Real Estate Market Index](#) indicates that conditions in hospitality have steadily declined since 2021. (See Figure 2.)

Figure 2: Hospitality market conditions continue to deteriorate.



Source: Federal Reserve Bank of Atlanta Commercial Real Estate Market Index, hospitality
Positive figures indicate strength; negative figures indicate weakness

Hospitality insurance buyers continue to see favorable conditions for property insurance, as do most other real estate asset classes. Rates are bottoming out for property policies, and competition is making broader coverage easier to secure. Expectations here are consistent with nonhabitational metrics noted above.

Casualty is an ongoing challenge, however, particularly given underwriters’ concerns about SML claims. SML exclusions are common for hospitality risks and are likely to remain that way. Underwriters are paying close attention to crime scores when evaluating

hotel portfolios. It is imperative that hoteliers provide their insurance brokers details on training protocols and technology implemented to help prevent abuse, molestation, and human trafficking incidents from occurring at their locations, so insurance coverage can be put in place.

Insurers, meanwhile, are seeking information about how leveraged properties are, companies’ debt structures, and other financial elements. Insurers prefer to underwrite well-capitalized and stable hospitality policyholders.

INDUSTRIAL

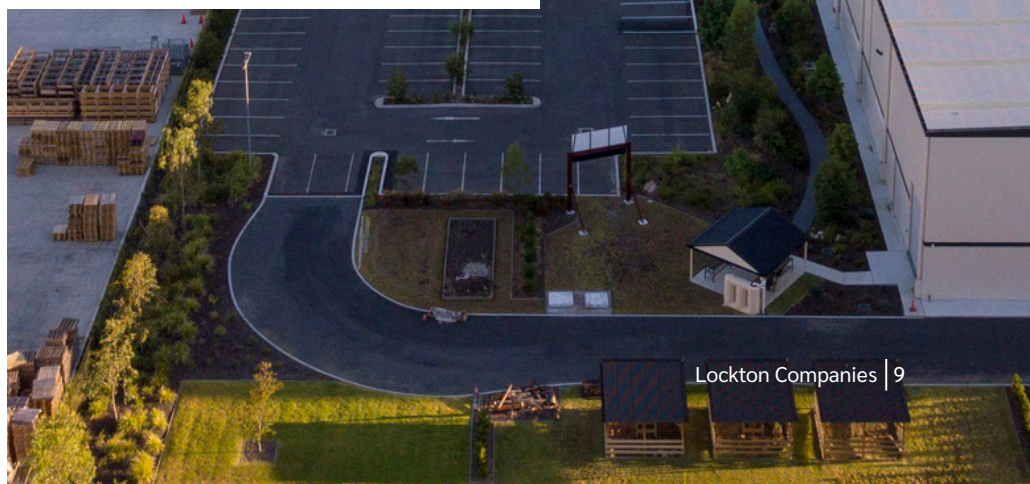
Growth attracting property & casualty insurers

In industrial properties, the national vacancy rate has stabilized at 9.2%, and new supply is forecast to increase sharply in the next three years, to nearly 400 million square feet, according to market intelligence firm Yardi Matrix.

Data centers account for much of the activity in the industrial asset class, driven by demand for artificial intelligence. Data center construction is tempered somewhat by access to power in certain areas. Nevertheless, data centers are booming, with fast-paced projects to build large, single-tenant properties as well as colocation data centers used by multiple tenants. By 2030, 61% of all data center capacity will come from hyperscalers — operators of the largest data centers — up from 44% today, according to Synergy.

Insurance pricing expectations here are similar to those seen by nonhabitational assets, with buyers often able to secure single-digit rate decreases at renewal for single-insurer placements and larger rate reductions for shared and layered programs. Primary and excess liability pricing also continues to rise, but in percentages lower than most of the marketplace.

The high value of data centers — a 100-megawatt data center can cost billions of dollars to build — is bringing more capacity to this type of risk. In addition to physical property exposures, business interruption and loss of rents represent additional potentially significant risks. As with other real estate assets, underwriters will want details on a property, its operating model for a single tenant or multiple ones, and other factors related to on-site power generation, site security, and fire suppression systems.





A DEEPER DIVE

Key trends beyond property

General liability

Premises liability is an evergreen risk in real estate, with slips, trips, and falls being an ongoing source of claims. General liability insurers are sensitive to litigation trends in the jurisdictions of real estate assets, crime scores, site security issues, and regulatory compliance. Based on their assessments of risk in these areas, insurers raise rates, increase deductibles and/or retentions, sublimit coverage, and withdraw capacity.

Capacity for umbrella and excess liability layers has become constrained. Lead layers of \$5 million are common now, and some insurers are only offering \$2 million. Large real estate portfolios with mixed assets may find higher limits, but in general, \$10 million lead layers are difficult to obtain in the current casualty market.

Liability insurers are imposing a variety of exclusions on claims that can arise at habitational, commercial, and hospitality properties, including for habitability, A&B, firearms, and liquor liability. Insurers continue to impose exclusions for mold and Legionella bacteria, while emerging exclusions address insurers' concerns over bodily injury from "forever chemicals" (per- and polyfluoroalkyl substances, or PFAS).

At locations with high crime scores, A&B or SML claims may be sublimited. Properties deemed to be in very high or extreme crime areas — as defined by risk analytics service providers — may see outright exclusions for these risks.



Specialized policies for A&B and sexual misconduct exposures are becoming necessary where GL insurers are excluding those claims. Real estate portfolios with a handful of difficult locations may find solutions in bifurcated insurance programs that ringfence hard-to-place risks. Other potential solutions include active assailant coverage or other sidecar insurance products that address specific crime-related risks.

Social inflation remains a casualty headwind

Casualty insurers remain challenged by social inflation, with underwriters increasingly focused on tail risk and pricing adequacy in five to 10 years. In 2025, meaningful tort reforms were enacted in Georgia, Louisiana, and South Carolina, but progress in other states has stalled.

A key challenge: The public has become numb to high-dollar awards, which may stem partly from aggressive attorney advertising. According to the American Tort Reform Association, legal services providers spent an estimated \$2.5 billion on 26.9 million advertisements in 2024, 39% more than in 2020 and more than double the amount spent in 2018.

Advertisements often feature nuclear verdicts of \$10 million or more — and so-called “thermonuclear” verdicts of \$100 million or more — creating a growing problem for insurers and litigation targets, including real estate companies.



Professional liability

The market for real estate professional liability insurance, also known as errors and omissions (E&O) insurance, has become competitive, leading to potentially favorable renewal terms, but E&O insurers

remain wary of antitrust exposures such as allegations of price fixing and restraint of trade. Limit adequacy is another concern for real estate professionals, as class-action litigation is becoming more frequent.

Management liability

Even though private management liability insurance is a competitive space, with ample capacity, the complex ownership structures and risk profiles in real estate make this line more challenging.

Blended policies that combine directors and officers liability (D&O) and E&O with employment practices liability, cyber, and crime coverages are one solution for real estate companies. Rates for

asset managers' E&O and D&O are expected to shift from single-digit percentage reductions to flat to single-digit increases in 2026.

Another blended form of coverage is general partnership liability (GPL), which combines D&O and E&O for investment companies. GPL costs little more per \$1 million of coverage than private D&O, making it a prudent coverage to explore for partnership entities.



Cyber

Cyber insurance conditions remain competitive in 2026. Although capacity is abundant and many carriers are writing cyber, overall rates are stabilizing.

Incumbent carrier quotes are predominantly flat. Although marketing efforts may provide some advantage, renewals typically settle at comparable rates.

The easy availability of cyber coverage does not mean every policy is structured properly for real estate insurance buyers. Real estate companies should explore manuscripted coverage for cyber exposures, as standard policies frequently exclude entities that are not wholly owned. Many real estate

ownership structures involve joint ventures and fractional investment, which may not be adequately protected by “additional insured” endorsements.

In addition, cybercrime wordings should keep pace with trends in social engineering; invoice manipulation claims are increasing. Real estate transactions commonly involve many different parties, and discretionary authority for money transfers often falls to investment managers and general partners.

For these reasons, working with a competent risk advisor that takes a detailed approach to cyber coverage is essential.

Crime

Insurers continue to compete for new and renewal business in crime policies, and capacity remains ample. As a result, rates for crime coverage are stable to slightly down.

A top concern for policyholders and insurers is social engineering fraud, making payment control measures a must-have. Many insurers’ authentication requirements in policies may limit crime coverage. Lockton is working with leading underwriters to draft real estate industry-specific language to provide more robust protection for social engineering and other property exposures.

Crime coverage is highly recommended where real estate organizations are using third parties to conduct funds transfers. Third-party services do not remove liability exposure from real estate entities, whether the underlying loss is caused by a cyber incident or fraud.

The interplay between cyber and crime policies on social engineering creates the possibility of coverage gaps. Buyers should work with their Lockton risk advisors to align coverage in these programs to meet their specific exposures.

Managing risk & insurance programs



Review contracts carefully.

Real estate organizations should look closely at their agreements with third parties to understand how contractual requirements may alter liability exposures and create new or higher insurance obligations. In addition, legacy contracts may need updating to reflect new business situations.



Share as much information as possible with your risk advisors.

Having detailed information helps insurance brokers differentiate risk and obtain the best coverage solutions. Policyholders should submit narratives that show underwriters positive steps to mitigate exposure. Details matter, and these enable brokers to differentiate real estate companies with underwriters.



Keep up with requests for data.

Underwriters in general are interested in knowing more about real estate businesses' strategies and plans for coping with market challenges. Promptly supplying such data is helpful to gain favorable consideration from insurers.



Work with your broker to resolve potential gaps in coverage.

For example, cyber and crime insurance policies may appear similar in addressing social engineering fraud and theft, but sublimits within policies can lead to unexpected coverage gaps. When different brokers are involved in placing these coverages, those advisors should communicate and align on how those policies will interact and which will be primary or excess.



Seek creativity & expertise in risk solutions.

Off-the-shelf insurance policies have shortcomings in addressing the complex risk profiles and dynamic conditions in the real estate industry. Work with a broker that has deep expertise in real estate and a penchant for finding creative solutions to challenging risks.

Diverse solutions for real estate risks

As a leading broker, Lockton develops risk and portfolio solutions by collaborating with colleagues across the firm. For real estate clients, Lockton has diverse risk management capabilities in specialized disciplines. These capabilities include:

Tailored insurance and risk management solutions for property owners, developers, and operators.

Advanced, patented risk analytics.

Claims advocacy and loss control services.

Property and casualty reinsurance.

Mortgage and structured credit, including credit risk transfer, significant risk transfer, and portfolio coverages.



Risk mitigation tips for real estate

Real estate assets and their owners are exposed to a broad set of property and liability risks, which can cause significant financial loss. Lockton's Risk Control team recommends the following to mitigate some of these risks.

01

Keep emergency response plans up to date.

Business conditions and environmental factors evolve, and so should real estate organizations' response plans. Take the time to prepare and communicate plans for life safety and business continuity.

Focus on resilience of property locations.

From natural disasters to internal mechanical breakdowns, owners and managers of physical properties should have plans in place to ensure resilience from water and wind events. Regular preventive maintenance of building systems plays a big role in physical resilience.

02

03

Strengthen security & crime prevention.

Environmental design can reduce opportunities for criminal activity and make properties more marketable. Important steps include ensuring proper lighting, secure access, and camera surveillance; on-site inspections and walk-arounds; effective maintenance programs; due diligence and vetting of security personnel; and education of employees and tenants on security matters.

Implement & maintain safety standards.

Progress is hard, if not impossible, to achieve without metrics. Changing the culture inside organizations is possible when owners and managers use a consistent process for promoting and measuring safety at each site. Set realistic and achievable commitments for safety and maintenance, such as proper lighting and onsite surveillance, or plaintiffs' attorneys will exploit those in litigation.

04

05

Take corrective action after an incident.

Make certain that problems are fixed promptly whenever an incident causes a claim. Inaction is tantamount to inviting litigation. For example, a site inspection revealed that a real estate firm did nothing to correct negligent security months after it was hit with a multimillion-dollar judgment.

Maximize value from carrier loss control surveys.

Understand that recommendations in site-level carrier survey reports may signal broader issues across real estate portfolios. Key gaps in plans — for example, escaped liquids, red tag impairment, or inspections and maintenance for fire and life safety systems — at one or more sites can point to weaknesses in enterprise-wide programs. Use these reports to strengthen risk mitigation efforts and drive consistent improvement across all locations.

06

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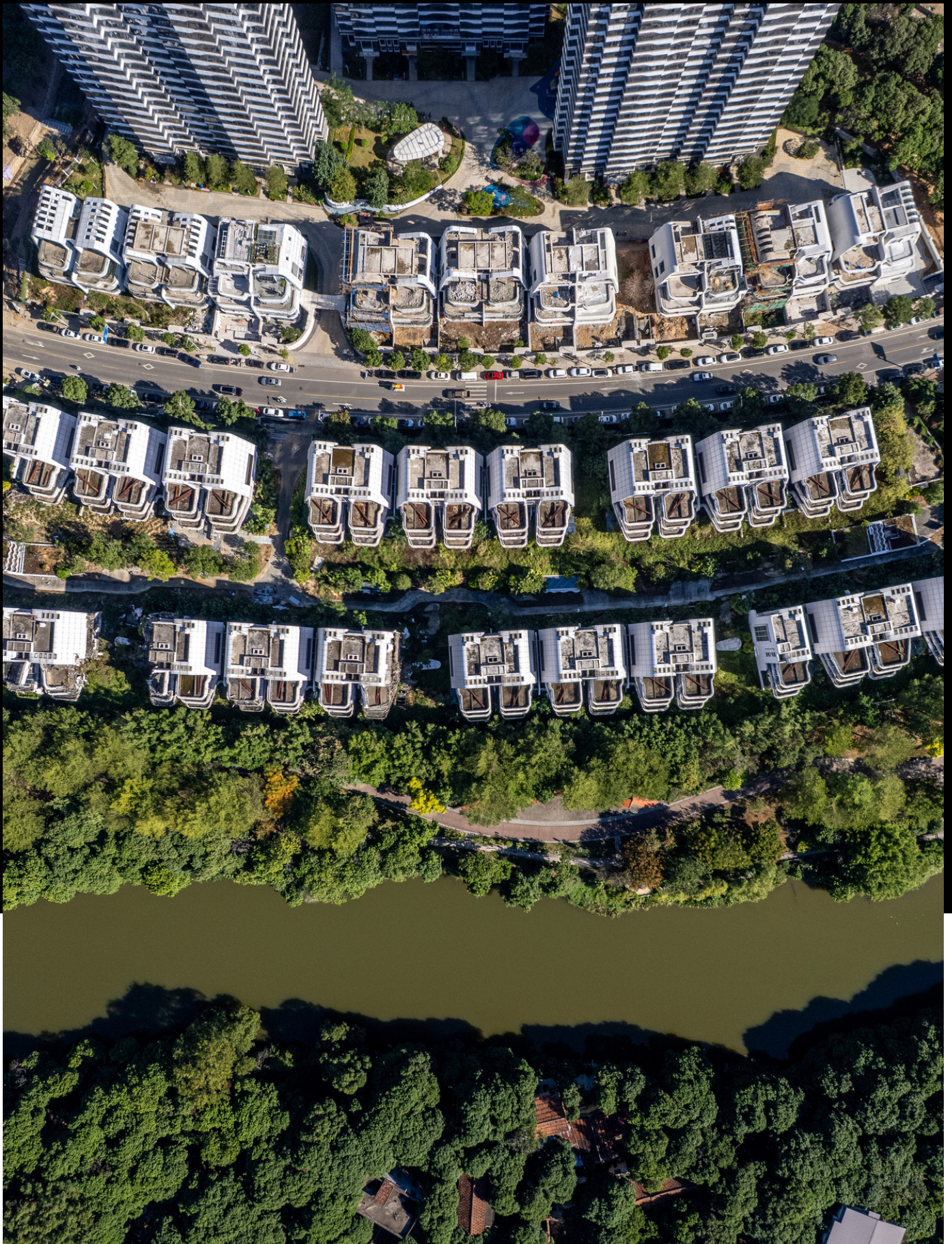
Track compliance & validate program effectiveness.

Compliance and validation can strengthen risk mitigation by ensuring programs are carried out as intended. Corporate-level initiatives may not be fully implemented at individual sites without clear tracking of compliance and confirmation that expectations are being met. A representative sample of site assessments helps verify that programs are effective and appropriately adapted to site-specific needs. Together, these practices can help organizations identify gaps early, support timely corrective action, and reinforce overall risk management frameworks.

Leverage risk intelligence.

Connect with a member of Lockton's Real Estate team to leverage our Real Estate Intelligence Platform, which helps clients manage key risks and stay focused on growing their businesses.

08



Get back to growth

In the real estate business, time is money. At Lockton, we remove friction from the insurance process so capital can move and assets can perform. Our real estate experts turn portfolio intelligence into clear decisions with solutions tailored to your needs. We advise across the full asset life cycle and work at your pace, so decisions are informed and on time.

OUR EXPERTISE RUNS DEEP

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- Retail
- Hospitality
- Industrial
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