Executive summary | March 2024

Wipfli Real Estate Leaders Exchange

Host: Cory Bultinck | National real estate leader at Wipfli

Facilitator: Austin Evans | Profitable Ideas Exchange

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Introduction

Nineteen leaders from the real estate industry met by phone to share leading practices and discuss topics of mutual interest based on an agenda created through a series of pre-interviews.

Cory Bultinck, partner and national real estate leader at Wipfli, hosted the exchange, and Austin Evans of Profitable Ideas Exchange facilitated. Eric Krieger, client advocate at Willis Towers Watson Midwest Insurance Services, joined as a subject matter expert. The focus of the discussion covered the following topics over the course of the hour:

- Update on the state of the insurance market
- Deal flow in the current market
- Insurance challenges and opportunities
- Technology updates

Update on the state of the insurance market

Eric Krieger of Willis Towers Watson Midwest Insurance Services opened the meeting with some general updates on the state of the insurance market.

- The cyclical insurance market is coming out of a hard market phase where there have been spiky responses from insurance companies regarding pricing and terms and conditions in the past couple of years. However, with inflation easing and prices rising to a level where insurance companies can start to manage the structure of their capital better, the current outlook is stable.

Krieger noted that in the past year, insurance terms and conditions drove insurance companies to change how they price their products.

- There has been a spike in convective activity (wind and hail) in the middle part of the country, which used to be considered more of a safe zone. In reaction to that, prices are increasing, and the industry is expanding the definition of the convective zone.

Deal flow in the current market

The group also discussed approaches to doing deals in the current market.

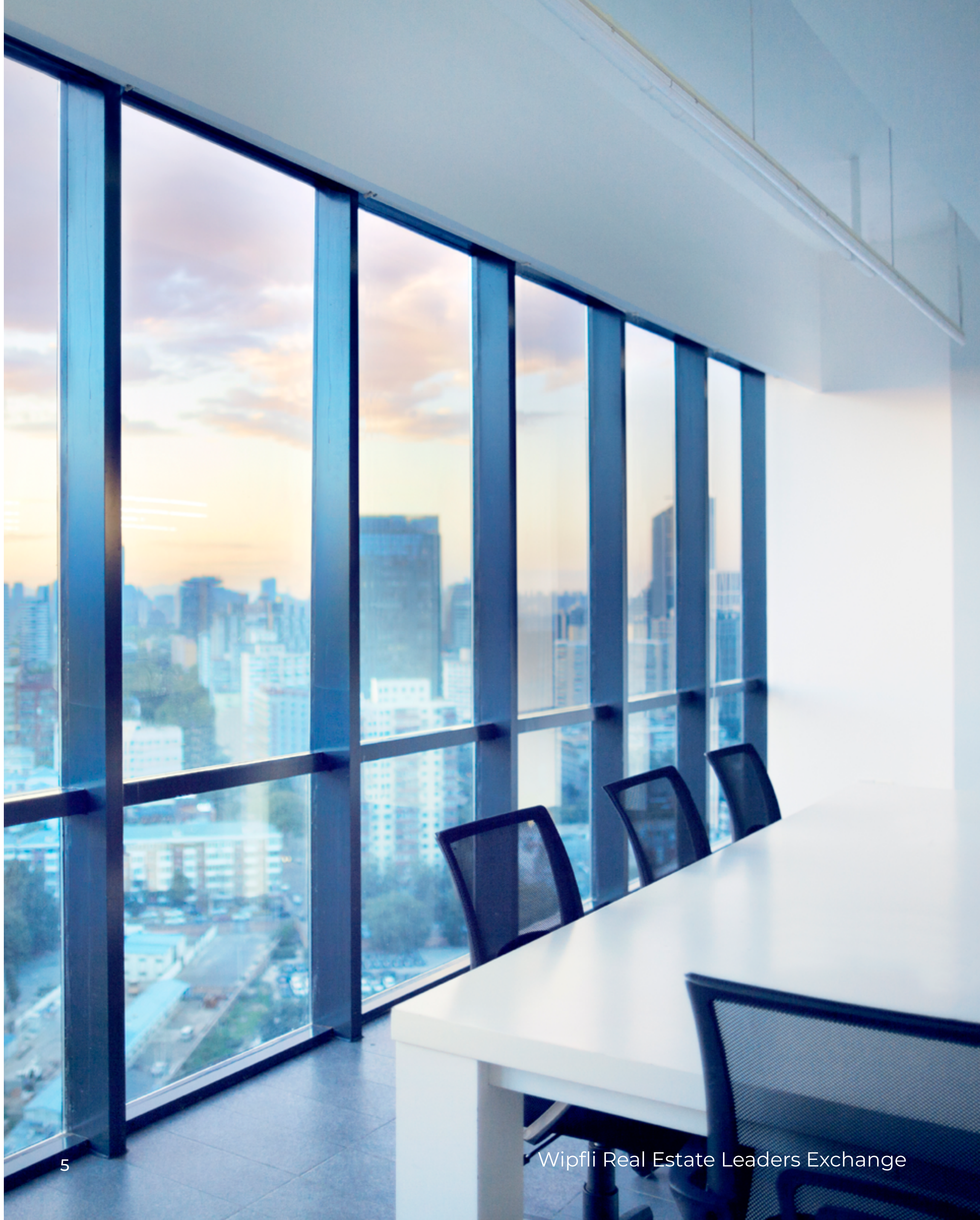
- With one or two exceptions, the executives are not aggressively pursuing new deals. Some deals are still happening, but they are tough in the current market — getting financing and pushing things through to the finish line can be challenging.
- In one case, a leader reached out to 60 different banks before securing funding through the networks of former in-house lenders. Considering these challenges, most leaders are also staying within their normal asset types and geographical footprints.

Leaders are getting creative in their funding approaches.

- Some strategies mentioned included utilizing PACE funding (particularly with smaller credit unions), moving money around for a larger down payment, originating loans as another branch of the business and doing deals with floating-rate debt to be later locked down on swap rates.

While many leaders are staying conservative and remain in a holding pattern, some members have slightly different approaches.

- One member is particularly interested in office spaces, which are usually considered “four-letter words” in the industry. However, these spaces are often offered at very steep discounts.
- Another executive who focuses on retail and multifamily shared that they are actively looking for new deals at below replacement costs. Their company has found some “opportunistic buys where others have shied away” that look to produce solid returns.



Insurance challenges and opportunities

The group expressed shared frustrations in the renewal process for insurance.

- One member shared they were hit with a 40% increase when renewing their policy.
- In another case, a member opened a competition between their current broker and a large national team and approached 17 carriers. Only two were in the ballpark of what they were looking for, and they went with someone who sincerely wanted to work with them. This experience underscored the importance of getting out in front of people, actually meeting them face-to-face and sharing the company story for differentiation.

In the past, when there were more pooled portfolios and the markets were softer, pricing, terms and conditions were also softer.

- Now, there are more segregated portfolios that seem more manageable for insurance carriers but often come with higher prices, terms and conditions and more headaches.

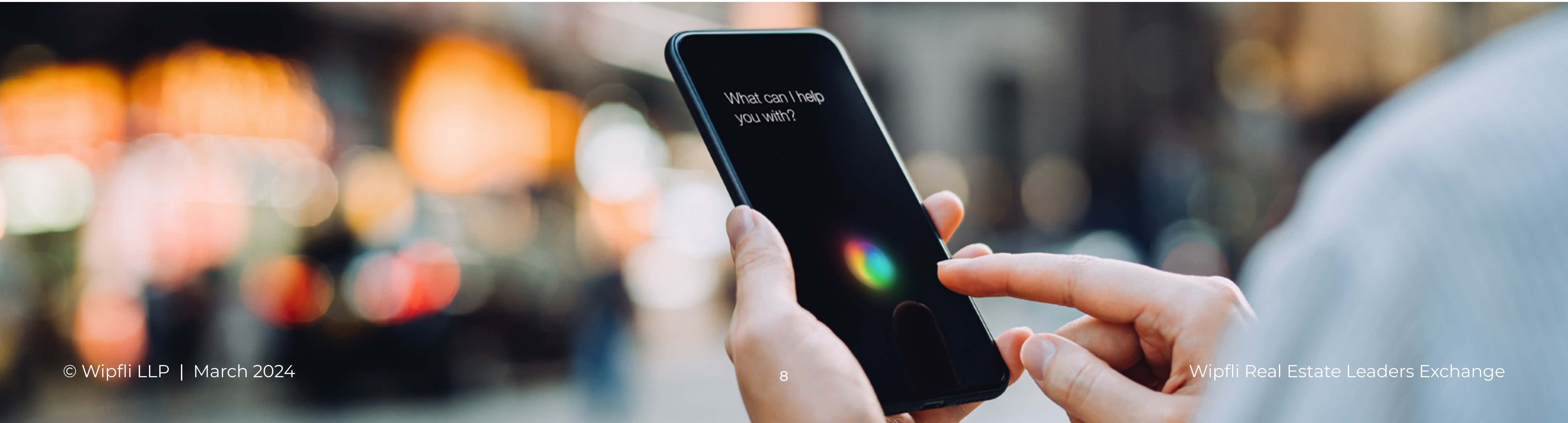
Because of these difficulties, several companies have been looking into self-insurance and captives.

- It was noted that captives often work better with more long-tail items like workers' comp. Shorter tail items can be too volatile and pose a high risk of catastrophic loss.
- For some members, captives weren't the right thing at the right time. For others, they moved forward with captives with success but also acknowledged it might not be the best time in the market for those just starting to explore this option.

Technology updates

A question was posed to the group about any "latest and greatest" technology tips concerning automation and accounting.

- One member had read an article about companies leveraging AI to speed up month-end close cycles. Others briefly shared how they are utilizing AI/technology more broadly.
- One leader is looking at some software with AI integration, and another is leveraging AI for marketing purposes throughout their organization. One leader also shared they offer AI as a perk for their retail clients to use.



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