# REAL ESTATE

## General trends

In the large real estate investment market, the hardening that began in 2020 and 2021 has carried on into 2022, particularly when it comes to placing damage insurance.

In the public sector and for social housing landlords, supply has been reduced to a few players, leading to unprecedented price increases during calls for tenders after years of continuous decline.

Specifications are scrutinized in minute detail and the "dreams" of a few consultants are crushed by a catalog of increasingly drastic reserves.

It is true that the implementation of the IRSI agreement in mid-2018 has led to a rise in the number of claims, particularly for water damage, with, in the end, not that many ways of countering them technically as all of these claims are honored from the 1st euro (with no deductible). Social housing landlords are also affected by this situation and are attempting to form a group to start discussions with insurers and make changes to at least part of this agreement, which does not work in their favor.

Increasingly frequent and severe natural events have also had a strong impact on the pricing increases seen in recent months.

In the private sector, particularly for large real estate companies and managers of French property investment funds (SCPI), the trend is also very bullish with an increasingly rigorous examination of the composition of portfolios and technical measures by asset category, which did not often happen previously. In fact, with regard to commercial leases, insurers are highly exposed by the reciprocal waiver of remedy clauses and insist on being informed of the prevention/protection arrangements made by the occupants.

The other major innovation is the renegotiation by all insurers of riders, with each of them using their own clauses to ensure the definitive exclusion of the uncontrolled risks which were massively exposed during the health crisis (no-damage loss of rent and cyber).

## Market capacity

In both the public and private sectors, capacity has been reduced in damage insurance, and sub-limits are increasingly making an appearance, particularly in costs and losses. Very large property portfolios which could sometimes be placed at 100% with certain US insurers now require extensive co-insurance, which makes them more complicated to place.

## Developments in coverage

As insurers want to get back to basics, coverage upgrades are a thing of the past. The underwriting of real estate risks is becoming very technical again, with very marked attention being paid to portfolios spread across a range of locations, with the imposition of more and more sub-limits.

## Pricing trends

The market remains bullish with a very significant impact from inflation and indexation that will probably be around 10% in 2023.

Hopefully, a return to greater competition will reverse this trend in the years to come.

# FOCUS ON TAXATION

According to article 1001 of the French General Tax Code [extract below], fire tax is set as follows:

> Paragraph 1 For fire insurance:
>
> 7% for fire insurance relating to non-exempt agricultural risks; the following are, in general, deemed to be agricultural insurance risks: the insurance of all risks of natural or legal persons exercising exclusively or primarily an agricultural or agriculture-related profession, as these professions are defined by articles L722-9 and L722-28 of the French rural and maritime fishing code, as well as the insurance of the risks of the members of their families living with them on the farm and of their personnel and the insurance of risks which are, by their nature, specifically agricultural or agriculture-related;
>
> 24% for fire insurance provided by departmental funds;
>
> 30% for all other fire insurance;
>
> However, the rates of the tax are reduced to 7% for fire insurance for property which is permanently and exclusively assigned to an industrial, commercial, craft or agricultural activity, as well as the administrative buildings of local authorities.

With respect to the assets of real estate landlords (excluding housing), a stricter reading of the tax rules may have consequences on the level of insurance taxes applied to Multi-risk Building policies.

This is because the tax authorities now require insurers to apply article 1001 literally and therefore to justify the 7% exemption.

This means that insurers are asking (or will ask) their policyholders to justify the “permanent and exclusive” use (article 1001 of the GTC) of the insured property for an industrial, commercial or craft activity, or for the administrative buildings of local authorities.

In practice, the policyholder will have to obtain this certificate from their tax office and send it to their insurer (via their broker) if the fire tax is to be maintained at 7%.

Otherwise, the tax will be 30%, which will increase the final amount (including tax) of the insurance premium.

We, of course, work alongside our policyholders to avoid any overzealous application of the tax doctrine, which would mean, in particular, too great a break from practice. It is true that in a context of rising insurance prices over the last 4 years, and economic inflation since the beginning of 2022, this is really not the time for policyholders to be subject to such a sharp increase in fire taxes.

# DIOT-SIACI'S EXPERTISE

## What is our operational technical expertise?

A center of expertise dedicated to public and private real estate companies.

A dedicated consulting activity for public housing operators.

Recognized experience and technical expertise in the placement of large real estate programs in France and Europe (FPS).

## How do we assist and support you?

An in-depth knowledge of our clients' activities for ongoing support in the analysis of their risks and the management of their claims.

## What can we offer you?

Responsive local administration with the production of technical notes, market reports and insurance manuals.

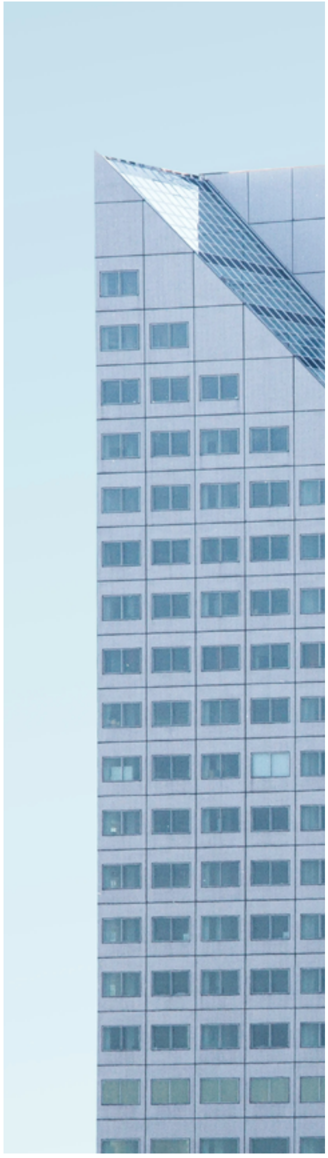
Organization of information meetings for clients' operational teams

BI tools developed over several years providing clients with an accurate overview of the results of their programs.

## What makes us different?

Proposals for schemes and coverage adapted to our clients' exposure, particularly for high-frequency risks.

Delegation of claims management making it possible for us to become directly involved in 90% of the claims handled.



€8.5 million in turnover

45 specialists

450 clients

€100 million in premiums placed

25,000 claims handled per year

**Olivier Descamps**
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