GLOBAL CONSTRUCTION AND REAL ESTATE FORECAST

THIS UPDATE ANALYZES OUR OBSERVATIONS OF THE CURRENT MARKET CONDITIONS FOR THE CONSTRUCTION INDUSTRY.

September 2024

EXECUTIVE SUMMARY

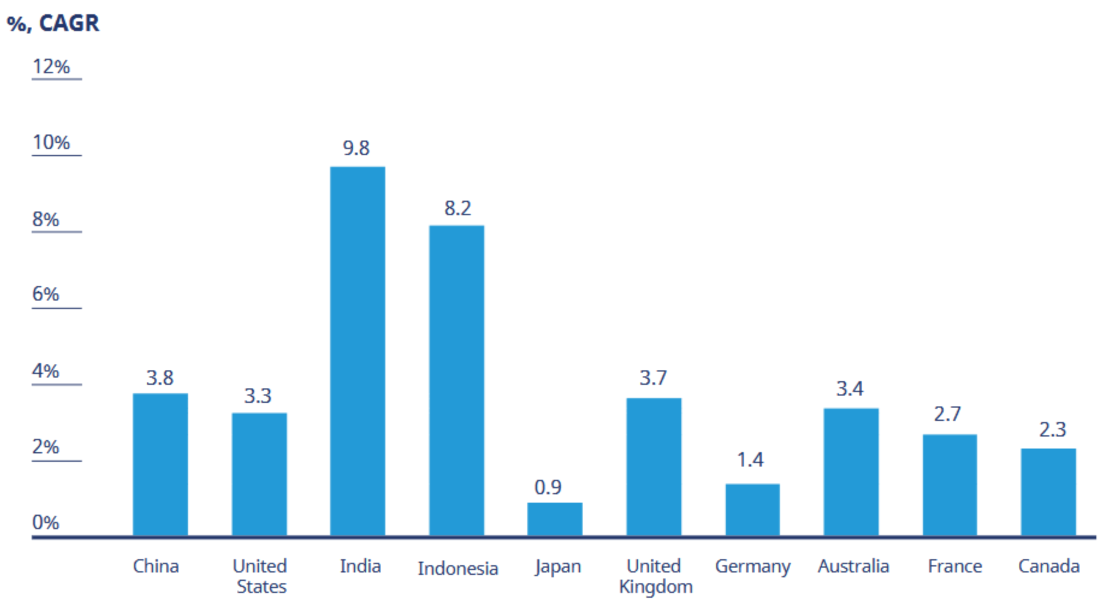
We are now observing capacity levels similar to those seen at the top of the last soft market cycle in early 2019 in most regions in the construction insurance market and in most commercial lines of business. We expect this positive trend to continue during the second half of 2024 and into 2025. This is due to increased interest from insurers in maximizing deployment of local capacity along with an influx of new capacity as entrants establish themselves, including renewed interest from internationally based insurers and reinsurers and returning former market players. This competitive environment, combined with the need for markets to grow their market share is expected to increase appetite and improve terms and conditions available to clients as we approach the end of 2024.

This will also help alleviate the need for significant rate increases despite ongoing industry challenges such as high interest rates and persistent inflation, lack of specialized workforce and uncertainty on claims, rebuilding and litigations costs. Consequently, pricing across most regions and product lines is expected to remain stable throughout 2024. This stability will result in favourable single-digit discounts for certain high premium volume programs, renewals, and one-off projects. In these cases, the client's reputation, low loss history, long-standing relationship with the insurers and comprehensive risk controls is fundamental to achieving the best results possible.

We remain confident that this positive market development will also increase interest in more aggressive lead insurers to see an opportunity to "step up" and fill in some of the gaps we are seeing particularly in large and complex CAR/EAR risks, in heavy civils, and in Project Specific Professional Liability and Inherent Defect Insurance (IDI) coverages. This is especially relevant in Europe, Asia and Australia, as well as auto liability and lead umbrella casualty lines in the U.S.

However, the continued impact of natural catastrophe events remains a major concern and allenge in heavily exposed territories, particularly for windstorms in the Caribbean, and Gulf of Mexico, the U.S. East Coast and parts of Australia, Asia and Latam which also faces the "La Nina" effect this year. Insurers are still carefully managing their pricing and capacity aggregations in these areas, including secondary perils like wildfires, floods, cyclones, and hail, which affect any countries worldwide. There is a close emphasis on locations in Europe and in the Americas which has also led to a higher demand for detailed project information and a greater emphasis on risk mitigation strategies, risk profiling and modelling

GROWTH IN INFRASTRUCTURE CONSTRUCTION 2020-2030



Source : Oxford Economics/Haver Analytics

COMMERCIAL REAL ESTATE OUTLOOK: KEY TAKEAWAYS FOR 2025

Economic Overview

- **Uneven Global Recovery:** GDP growth varies across regions, with India and Singapore expected to grow faster than in 2023, while Mexico and Japan may slow down. The U.S. is projected to see slower GDP growth in 2025, while the UK and Eurozone are expected to outperform.

- **Optimistic Outlook:** Despite slower growth than historical levels due to high borrowing costs and geopolitical issues, recession has mostly been avoided, and inflation has decreased. Central banks are expected to loosen monetary policy.

Industry Sentiment

- **Revenue Expectations:** 88% of global respondents anticipate increased company revenues, a significant shift from the previous year. 60% expect growth to exceed 5% year-over-year.
- **Spending Focus:** Most respondents (81%) plan to focus spending on data and technology, recognizing the industry's limited technology capabilities and the emergence of generative AI.

Macroeconomic Trends and Concerns

- **Elevated Interest Rates:** Real estate organizations anticipate a higher-for-longer rate environment. Deloitte economists project two rate cuts by the U.S. Federal Reserve by the end of 2024, followed by four more in 2025, settling at 4.5%.
- **Changes in Tax Policies:** The enforcement of Pillar Two (15% global minimum tax) and numerous global elections are significant factors.
- **Cost of Capital:** Concerns around the elevated cost of capital persist.

Market Cycle and Investment

- **Bottom of the Market:** There are indications that 2024 could be the bottom of the current commercial real estate market cycle, with property valuation declines slowing.
- **Improved Conditions:** Over 68% of respondents expect improved conditions for CRE fundamentals in 2025, including cost of capital, capital availability, property prices, transaction activity, leasing activity, rental growth, and vacancies.

Regional Optimism

- **Leasing Conditions:** Global respondents are most optimistic about leasing conditions for residential, industrial, hotel/lodging, and alternative sectors. The office sector remains the least optimistic.
- **Regional Differences:** North America and Asia Pacific are more optimistic about improved leasing conditions than Europe. Asia-Pacific respondents are also optimistic about improved lending conditions.

Investment Opportunities

- **Top Asset Classes:** Industrial and manufacturing, multifamily, and hotel and lodging assets are seen as top opportunities. Digital economy properties (data centers and cell towers) and logistics and warehousing facilities remain popular.
- **Regional Priorities:** Asia Pacific prioritizes industrial and manufacturing properties, while North America focuses on multifamily properties.

Mergers & Acquisitions

- **Increased Activity:** 68% of respondents expect to increase M&A activity in the next 12 to 18 months, focusing on improving organizational capabilities rather than expanding property portfolios.
- **Key Goals:** Top M&A ambitions include adding new technology capabilities, increasing scale, and acquiring new talent.

Sustainability and Retrofitting

- **Deep Energy Retrofits:** 76% of global survey respondents plan to undertake deep energy retrofits in the next 12 to 18 months.
- **Building Performance Standards (BPS):** Increasing stringency of BPS and building energy codes across countries.
- **Challenges:** Financial constraints, building age, and design limitations are significant challenges to conducting deep energy retrofits.

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