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Q1 2024 MARKET TRENDS

Surety

Construction & Infrastructure

The Broadband Equity, Access & Deployment (BEAD) Program, which provides upwards of $40 billion for placing affordable high-speed internet throughout the rural United States, has found a conditional programmatic waiver of their letter of credit obligations in the latter half of 2023. These changes now allow Letter of Credit (LC) requirements to be waived if the applicant commits to having a surety bond issued in its stead. Each state will decide on acceptance of surety instead of LCs through 2024 as funds continue to be disbursed. Both public and private entities sponsor these projects, but public-private partnerships have traditionally fallen into a gray area regarding surety bond programs. While the federal government offers support across infrastructure and construction initiatives, many will seek advice from other organizations leading the charge.

Real Estate & Energy

While most commercial real estate owners and managers expect falling revenues through 2024, many plan to use this time to improve technological infrastructure and methodologies. The cost of capital continues to increase, which has led to reduced overall spending throughout this year.

An additional concern is climate-related regulatory action. Many commercial real estate groups may need to meet carbon emissions targets, creating a need to move to greener energy, either from the grid or producing onsite. Those who elect solar assets to be a part of their portfolio should educate themselves on performance and payment surety bond risk through the development and construction phases to help mitigate their overall risk.

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Healthcare

Those who choose to renew letters of credit may continue to find the cost of capital concerning and will likely need help utilizing their capital or deleveraging their balance sheet. The next group of financial guarantees on CMS value-based care contracts is expected to be posted in mid-January, with some changes showing increased financial security from 3% to 4%. This only applies to those with federal CMS contracts who have also elected the provisional financial settlement.

Large insurance companies in the private payor sector have successfully opened the doors to surety-bond solutions and implored provider groups to negotiate better terms within their contracts. Typical surety bond rates fall around 1% fixed, whereas the average letter of credit is about 4% variable for the middle market.

Private Equity & Venture Capital

2024 presents an uncertain economic environment, resulting in differing expectations between buyers and sellers. Private equity firms are holding on to their assets longer, upwards of seven years compared to the usual five, which brings concerns that private equity firms do not want to sell due to non-optimal pricing. The exit value in 2023 has decreased by approximately $100M from 2022. This prolonged holding of assets leads to fewer sales, leaving less capital to push into new funds to stage new purchases.

Companies seeking new or additional VC funds in 2024 may face complications due to these holding patterns. Those with surety programs may ultimately see reduced capacity as funds stay in holding patterns and funding timelines continue to lengthen.

How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving property & casualty program.

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