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Mounting Insurance Premiums Vex Property Owners in Climate-Risk States

Rising insurance costs are a growing problem for commercial property owners, particularly in states with increasing climate-related risk, such as Florida and Texas, where costs are rising upwards of 50% and starting to threaten new development and property sales.

Although rates are rising nationwide, the problem is most acute in states that are experiencing a growing number of extreme weather events that include hurricanes, winter freezes and wildfires. Hurricane Ian, for example, cost upwards of \$50 billion in damages as it ripped through Florida last September.

Weather-related payouts have left some insurers insolvent, while others are avoiding high-risk states. The maneuvering translates into higher rates and less coverage for property owners. "The rate environment for real estate-specific property is severely challenged, especially in Florida and Texas and along the Gulf Coast," said Danielle Lombardo, the chair of Lockton Global Real Estate, a New York-based advisory firm. "This has caused a bifurcated market between catastrophe-exposed and non-catastrophe-exposed business, with the highest double-digit increases in properties that have negative risk attributes, such as older frames, a challenged loss history or undervalued assets."

Many reinsurance companies, which property insurers use to move portions of risk off their own balance sheets, are quitting high-risk states, and those that stay are raising rates by 45-100%, Lombardo said. "Reinsurers are running away from Florida," she said. "Something has to be done differently."

The trickle down from the lack of reinsurance affects the capacity of excess/surplus carriers and managing general underwriters. Rates for property insurance in Florida—even in non-coastal areas—will rise 40-50% in 2023, and 100% increases are not uncommon, according to Christopher Conlon, director of risk management for Mahaffey Apartment Co. in St. Petersburg, Fla. Those increases are on top of 15-30% rate hikes in 2022, he said.

Not only are costs increasing but insurers are covering less wind limit on replacement costs with large increases in deductibles, new exclusions for damages such as mold or flood endorsements, and limits on payouts. That forces property owners to layer wind on top of other policies to reach the replacement cost values required by lenders. "Ownership groups must layer policies with multiple carriers up to the desired limit based on how much