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Question of the Month: Why do commercial real estate insurance rates continue to rise? - by Jeffrey Bernard

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Over the past four years, commercial real estate insurance rates have been on an upward trajectory. Perhaps because of the pandemic and more people working from home, the hikes have not been as dramatic as they were in 2019 or early 2020, but commercial real estate insurance in New York City—and nationwide, for that matter—continues to rise.

There are a myriad of factors contributing to these increases, but for one thing, insurers' guidelines have led underwriters to be much more selective for both new and renewal business. Carriers focus on quality business along with risk management controls. In addition to a spike in premiums, insurers are asking for more information up front to underwrite and are becoming more restrictive on policy language and limits provided.

Adding to that, 2021 represents the fourth consecutive year of catastrophic losses impacting commercial real estate rates. Starting in 2017, the insurance industry's unprecedented losses had insurers re-evaluating their own exposure to risk based on location and loss history.

Long before COVID-19, the industry was reeling from losses quite possibly precipitated by climate change. Owners of property located in areas exposed to flood, tornadoes, hail, and wildfires experienced the most significant increases. But even real estate considered to be "non-catastrophic" with a good loss history was hit with significant increases ranging as high as 10% to 20%. Properties with poor loss history were seeing increases of more than 25%! And for accounts with prior claims experience, finding adequate property limits became even more challenging.

Moreover, since carriers are already receiving higher premiums, the traditional property insurance marketplace is less inclined to underwrite businesses in areas prone to greater loss potential. As a result, the Excess and Surplus (E&S) lines insurers are playing a more critical role in the placement of commercial real estate accounts.

In order to stay ahead of these changes, it is best to work with a qualified and educated insurance broker who can assist with all pertinent aspects of risk management needs. There may be a silver lining here too: Reduced usage of commercial assets due to COVID-19 shutdowns has lowered projected pricing changes slightly for 2021.

That said, we are just now heading into the second quarter and the situation could change. A combination of limited capacity and lack of eagerness to underwrite policies could still result in increases in commercial real estate insurance rates. For example, over the past 12 months, we have experienced a decrease in the number of Risk Purchasing Groups (RPG), i.e., leader umbrella carriers. At this juncture, most of these insurers are being very selective and looking to lower limits with higher premiums.

In addition to traditional property concerns, real estate owners are now under increased scrutiny to provide safe premises for their tenants. In New York City, real estate owners, specifically multifamily owners, have been experiencing substantial insurance capacity challenges for general liability. A combination of large verdicts in civil and L&T courts, along with an increase in claim reserves, have resulted in driving away many insurance companies from multifamily coverage. You can also add the imminent lifting of the eviction moratorium and we should
be prepared to see an uptick of litigation towards building owners for alleged tenant discrimination and wrongful eviction due to pandemic-related hardship claims.

The impact on multifamily umbrella liability insurance will cause a flood of submissions which, even pre-COVID, had already increased exponentially. Rather than waiting to renew, owners should be prepared 120 to 150 days prior to policy expiration date. This preparation includes any paperwork for repairs on existing damage and prevented future losses of the same type.

In addition, owners should evaluate their company's five-year loss history for general liability, property—and umbrella insurance policies. They also should be able to provide details on risk management techniques if losses have occurred. Knowing the details of a company's overall risk management philosophy will be helpful, especially when it exemplifies a willingness to promote safety, risk control, and risk mitigation. Finally, evaluating the ability to absorb a higher retention may offset rising premiums!

In the months prior to a renewal, working with a broker and having details of the efforts that have already been used to improve building conditions, will be helpful. As previously mentioned, the better the submission is with all information upfront, the better off you will be in the end.

To say it is a challenging market out there is an understatement, but with the right preparation and a reputable insurance advisor or risk management team, rates may be improved and with greater protection.

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