California CRE Market is Seeing Insurance Carriers Not Provide Coverage

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As with any insurance market, the commercial property insurance market is constantly evolving, with new trends and challenges emerging that can impact both insurers and policyholders alike. Across the country, there have been several regulatory changes in recent years that have added costs and increased compliance requirements for insurers in this space. Specifically in California, there has been an increase in non-renewal notices as many insurance companies withdraw from the marketplace, most notably in Los Angeles County but also throughout the entire state.

California has become one of the most difficult places to write insurance, so many carriers are exiting the market, reducing capacity, or only looking to insure best-in-class buildings. “A great number of factors are tied into this difficult market, which is now driven by fewer carriers”, said Miguel Castaneda, Senior Account Executive at Grosslight Insurance.

One such factor that is playing a major role: risk.

“Post-2008 the insurance market was ‘soft’ with preferred carriers willing to take on more risk to get the premium volume,” Castaneda said. “During that last five years, though, we’ve seen the preferred markets start to unwind some of the accounts as risk has become more unpredictable and costly to insure.”

For example, concern has grown over the incidence of natural disasters including wildfires, flooding, landslides, and earthquakes. This is especially true of wildfire zones where insurance carriers have completely remapped and reclassified cities or sectors that have been historically less risky. Now, there’s a large coverage gap in these locations because placement is difficult. This has caused premiums to further increase and caused reinsurance costs to be passed down to policy holders.

Natural disasters aren’t the only means by which insurers are evaluating risk, Castaneda said. They also consider a property’s likelihood for litigation and heightened number of claims. Multi-family is considered high risk because the human factor by nature yields an increased frequency of claims. The same can be said of retail shopping centers where there is increased foot traffic. In essence, the more people, the more claims. Industrial buildings and office properties, on the other hand, are considered moderate to lower risk, unless they have a very high vacancy rate which can make them susceptible to theft.

“Another factor to consider is the building’s age”, Castaneda said. In Los Angeles where the building stock is aging, the preferred market prioritizes either structures built within the last 30 years or those with records reflecting regular maintenance and upgrades. Insurance companies don’t inspect properties every year, which can have unfavorable outcomes for buildings that go several years without review. For example, many carriers are shying away from Los Angeles’ Downtown and Garment District because of the high incidence of claims coming from older buildings that haven’t been kept up. A lot of these older buildings are being placed on the Excess and Surplus Market (E&S) when the risk is too high to insure, which results in higher rates, and in some cases, limited coverage.

Despite these challenges facing the CRE industry today, there are still many opportunities available for building owners who adequately prepare themselves.

Here are some strategies Castaneda recommends:

- Maintain accurate records. Well-kept documentation is the best tool an owner can have to prove the maintenance and renovation of their property. Remember: to secure a carrier in the preferred insurance market, the building does not have to be new, but the systems must be up to date. A 100-year-old building can get placement if inspections and records reflect optimal maintenance.
- Check your online presence. These days, Google is the number one underwriting tool for insurance companies other than classic in-person visitation. If you haven't already, Google your building to see what an agent will see online, then take action to improve your property's virtual presence. This might mean removing encampments, replacing a roof, and cleaning away graffiti.
- When in doubt, diversify. A mixed portfolio of newer (preferred) and older (E&S) properties will help owners maintain or achieve insurance coverage for less desirable properties. Newer zones in preferred areas can help enhance your overall portfolio if you also own older buildings.
- Practice preventative maintenance. If you don't have a regular and consistent maintenance plan in place, it could lead to higher rates. Keep in mind that many industrial buildings were constructed 40 years ago or more, which puts them at the tipping point when it comes to insurance. Carriers are looking very stringently at buildings that have not been well maintained, but making regular improvements can improve your odds of good coverage.
- Aim for partnership. It is vital that insureds work closely with their retail brokers and wholesale trading partners to ensure their submissions clearly and effectively outline all important details for underwriters, creating the best conditions for the review process and subsequent negotiations.
- Increase office occupancy. From an insurance perspective, occupancy rates matter. The lower the occupancy rate, the higher the risk of theft and higher incidences of claim. If you can secure an occupancy rate of at least 30 percent, then your property stands a better chance of receiving a renewal.
- Be mindful of location. If you're buying a property, be aware whether the building falls within a high-risk fire or other natural disaster zone. When it comes to insurance, this will be a big factor that will go into your policy consideration.