

Cost of Commercial Property Insurance Surges Thanks to Inflation, Climate Change

As climate change continues to create more turbulent weather and natural catastrophes, commercial property insurance rates are still climbing and the recent surge in inflation is adding fuel to the cost of coverage.

While overall commercial property rates increased about 10% on average in 2021, rates surged between 25% and 40% in areas prone to natural catastrophes during that same period, according to MarketScout, which tracks insurance prices. The hardest-hit areas have been for businesses located in California and the southern coast of Florida.

Besides climate, the cost of claims is also rising in response to the higher costs of building materials and the cost of labor in the construction industry. That's adding to the cost of insurance across the board, even for properties in lower-risk areas.

The cost of natural disasters has been increasing exponentially in recent years as hurricanes and storms grow in number and intensity on the Atlantic and wildfires ravish large swaths of the West. Other parts of the United States face their own challenges, such as tornadoes in the Midwest and flooding in many parts of the country.

What you can do

Business owners that possess their own buildings may want to take note of what commercial property investors are doing to mitigate their risk. Some of these companies are delving deeper into potential risks, such as wildfire maps and sea-level projections, before planning new projects or buying existing developments.

They are hedging their bets because if the risk and severity of disasters increases, insurers:

- Can raise rates to the point that investment could become unaffordable,
- May start curtailing how many properties they will write in a given area, or pull out of a market altogether,
- Could cap policy limits to reduce their exposure, and
- May require policyholders to accept more of the risk by assuming a larger deductible.

If your business is planning on locating to a new area or you are investing in commercial properties, it would be wise to take the same approach as institutional investors and avoid areas at greater risk of natural disasters.

Most often though, businesses are tied to a specific community which they serve, meaning they cannot move to a new city or state as they would have to start over again building a customer base. In the case of flood exposure though, risk can vary from one part of a city or county to

another and companies have more options for choosing a place that is relatively safe from flooding.

If you want to stay put in a high-risk area, your only option is to "harden" your facilities against natural disaster as best you can.

In California, the main danger is wildfires, which have been growing in scope, number and intensity during the past decade. Many businesses with properties located in high-brush areas are unable to find coverage, and some of those that do are being hit with rate increases of 100% to 200% in some cases.

In tornado and hurricane-prone areas, businesses should:

- Ensure their roofing is in good condition.
- Secure all roof-mounted equipment, and make sure roofing is clear of debris and flashing is in good shape.
- Regularly inspect skylights for cracks and leaks; also inspect securements to the curb and address any rotting.
- Throughout the year and after storms, inspect outdoor signs to ensure connections function properly, have no missing bolts or screws, and are free from rust.
- Install lightning protection systems, which serve as defense against dangerous lightning strikes to property.
- All windows and glass in doors should be properly protected with impact-rated glass or a shutter system.

In flood-prone areas, commercial property owners should:

- Understand and address the risks of their buildings to shield against floods. Commercial buildings in low-lying areas or flood plains may be at higher flood risk than those set high atop a hill.
- Proactively seal cracks and repair weaknesses, and add a layer of waterproofing material to commercial structures.
- Inspect walls and basements regularly to ensure there are no cracks or damage that could lead to water intrusion.
- Invest in preventive flood-proofing measures, such as wraps, caulking or waterproof sprays.

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