



Impact of Rising Insurance Costs

ON REAL ESTATE DEALS





COMMERCIAL REAL ESTATE VALUATION

Discounted cash flow (DCF) and rising insurance costs:

Impact

Rising insurance costs directly reduce the net operating income (NOI) of a property, which is a critical component in the DCF method of valuation.

Insurance Consideration

Higher insurance premiums or the need for more comprehensive coverage can significantly impact the profitability of the property.



TENANT CASH FLOW



Impact on Tenant Financial Health and Property Value

Impact

The financial health of tenants is vital for maintaining steady cash flow in properties like industrial, retail, and office spaces.

Insurance Consideration

Property owners need to consider the insurance costs that might be passed on to tenants through triple-net leases or other agreements.



BUSINESS INTERRUPTION COSTS

Increasing Costs and Operational Concerns

Impact

Business interruption insurance is essential for protecting against revenue losses due to disruptions, such as natural disasters or other insured events.

Insurance Consideration

The increasing cost of business interruption insurance can be a concern for both property owners and tenants.



MARKET CHALLENGES

Impact

The past year has seen steep insurance rate increases, limited catastrophe (CAT) capacity, and higher retentions, which have affected the feasibility and profitability of real estate deals.

Insurance Consideration

Investors and developers need to factor in the rising insurance costs early in the deal analysis process.



TRENDS TO WATCH

Impact

The continued increase in CAT losses, coupled with minimal inflow of new capital into the insurance market, is raising concerns over the affordability of insurance.

Insurance Consideration

Real estate professionals should monitor these trends closely and consider locking in long-term insurance agreements where possible.



NOTABLE SHIFTS IN THE MARKET

Impact

Shifts such as less volatility in replacement cost indices, the growth of the surplus lines market, and increased interest in alternative risk transfer are influencing how real estate deals are structured and financed.

Insurance Consideration

Buyers and sellers should leverage these market shifts to their advantage, such as using surplus lines or incorporating AI-driven assessments.



REPLACEMENT COST INDICES

Impact

Easing inflation may lead to slower increases in replacement costs, but ongoing labor shortages and supply chain issues could still affect property valuations.

Insurance Consideration

Ensure that replacement cost valuations are accurate and reflect current market conditions. This may require updating property appraisals and adjusting insurance coverage.



SURPLUS LINES MARKET GROWTH

Impact

The growth of the surplus lines market and the increasing role of London and Bermuda insurers offer more options for securing insurance in challenging markets.

Insurance Consideration

Real estate professionals should explore the surplus lines market as an option for securing necessary coverage, particularly for properties in high-risk areas or those with unique insurance needs.



ALTERNATIVE RISK TRANSFER

Impact

The growth of captive surplus, increased fronted reinsurance premiums, and the expansion of the parametric market offer alternative ways to manage insurance costs.

Insurance Consideration

Investors and developers should consider incorporating alternative risk transfer mechanisms. This can help mitigate rising insurance costs and make deals more attractive.



TECHNOLOGY IN UNDERWRITING

Impact

The adoption of AI in underwriting is speeding up risk assessment and potentially lowering costs, but it also introduces challenges such as less personalized service and potential inaccuracies.

Insurance Consideration

Real estate professionals should embrace AI-driven underwriting for its efficiency but remain cautious about relying solely on automated assessments.



DETAILED LENDER REQUESTS

Impact

Rising insurance costs can complicate meeting detailed insurance requirements from lenders, potentially delaying or jeopardizing real estate deals.

Insurance Consideration

It's essential to align insurance coverage with lender requirements early in the deal process. This may involve negotiating specific terms with insurers or adjusting coverage limits to satisfy lender criteria.

INSURANCE TERMS AND WHAT THEY MEAN



Additional Insured

This refers to a person or entity other than the policyholder who is included as an insured party under the policy.



Loss Payee

This is a party that is entitled to receive payment from the insurance company in the event of a loss covered by the policy.



Waiver of Subrogation

When a waiver of subrogation clause is in effect, the insured agrees to waive or give up this right of the insurance company to pursue recovery from third parties who may have contributed to the loss.



WAIVER OF SUBROGATION

1

Disputes

Parties may disagree on whether certain actions or omissions fall within the scope of the waiver, leading to legal conflicts and delays in the claims process.

2

Higher Premiums

Insurers may charge higher premiums for policies that include waivers of subrogation, as they are taking on additional risk by forfeiting their right to seek recovery from third parties.

3

Limitation of Insurance Coverage

If the insurer cannot pursue recovery from a third party responsible for a loss, the financial burden may ultimately fall entirely on the insured.



Acord 26 Certificate of Liability Insurance

- Insured information
- Insurance company information
- Policy information
- Coverages provided
- Additional Insureds
- Description of operations
- Certificate holder



Acord 28 Evidence of Property Insurance

- Insured information
- Insurance company information
- Policy information
- Coverages provided
- Additional Insureds
- Description of Property
- Certificate holder

Q & A



LEARNING OBJECTIVES



Better understand the overall property insurance market.



How the current property insurance landscape is evolving and what can property owners do to help soften the costs.



Long-term property outlook and what to expect moving forward.

THANK YOU!



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