

Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs

Peter Muoio, PhD | *Head of SitusAMC Insights* | SitusAMC

Jen Rasmussen, PhD | *Vice President, SitusAMC Insights* | SitusAMC

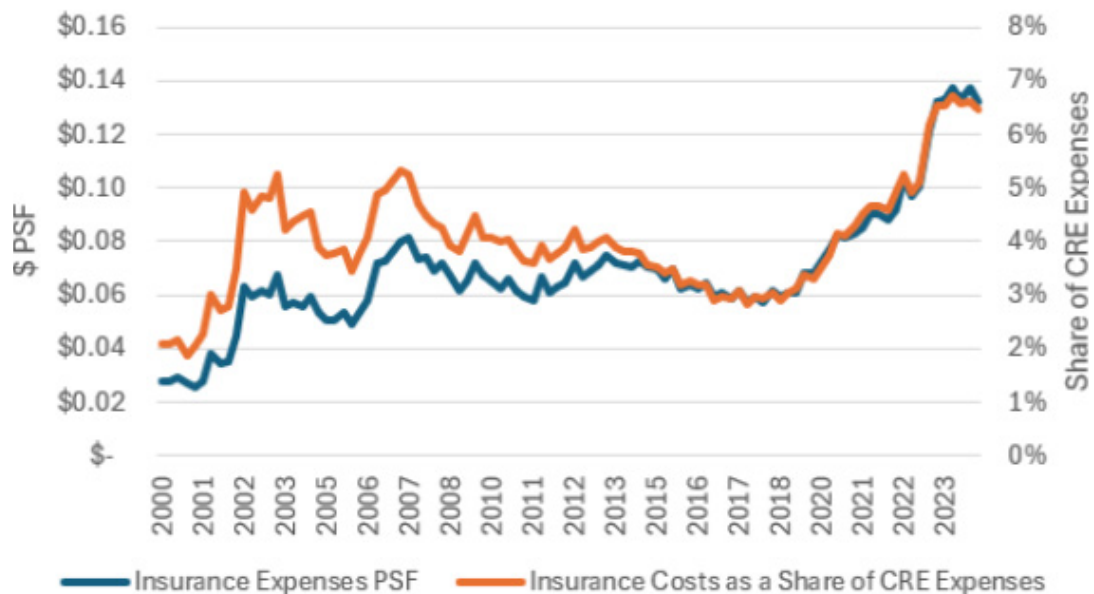
The U.S. has seen a steady increase in weather-related disasters—up 15% between 2021 and 2024, with annual damages of more than \$17 billion.

That has led to soaring insurance premiums as the quantity and severity of natural disasters escalates. SitusAMC analyzed the rise in costs for commercial real estate (CRE) owners since 2019, highlighting the states and property sectors hardest hit by the trend.

Insurance **costs have surged**, with premiums rising an average of 15% annually since 2019, more than doubling the 6% pre-2019 long-term average based on NCREIF Property Index expense data. By Q4 2024, insurance expenses hit \$0.13 per square foot (PSF), nearing all-time highs.

Insurance costs as a share of CRE expenses experienced **equally explosive growth**. They now account for 6.5% of total operating expenses across all CRE sectors, up a significant 190 basis points (bps) from 4.6% at the beginning of 2022 and hovering near the historic high. This increase underscores the growing impact of insurance as a significant CRE expense, even when accounting for inflation in other operational expenses.

FIGURE 1
CRE Insurance Expenses PSF; Insurance as a Share of CRE Expenses



Sources: NCREIF, SitusAMC Insights

Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs (cont.)

On the positive side, insurance costs have plateaued in recent years, with year-over-year expense growth decelerating for three consecutive quarters and declining in Q4 -- the first year-over-year decline seen in over six years. However, the overall trend highlights the increasingly critical role of strategic asset management in maintaining property performance and returns.

Coastal States Are Hardest Hit

While insurance costs vary sharply by location, **California, Florida** and **New York** are market leaders in growing CRE insurance premiums. Coverage is becoming increasingly difficult to secure as insurers retreat from markets with heightened exposure to natural disasters, with nonrenewal rates climbing, especially in parts of the central, southern and western U.S.

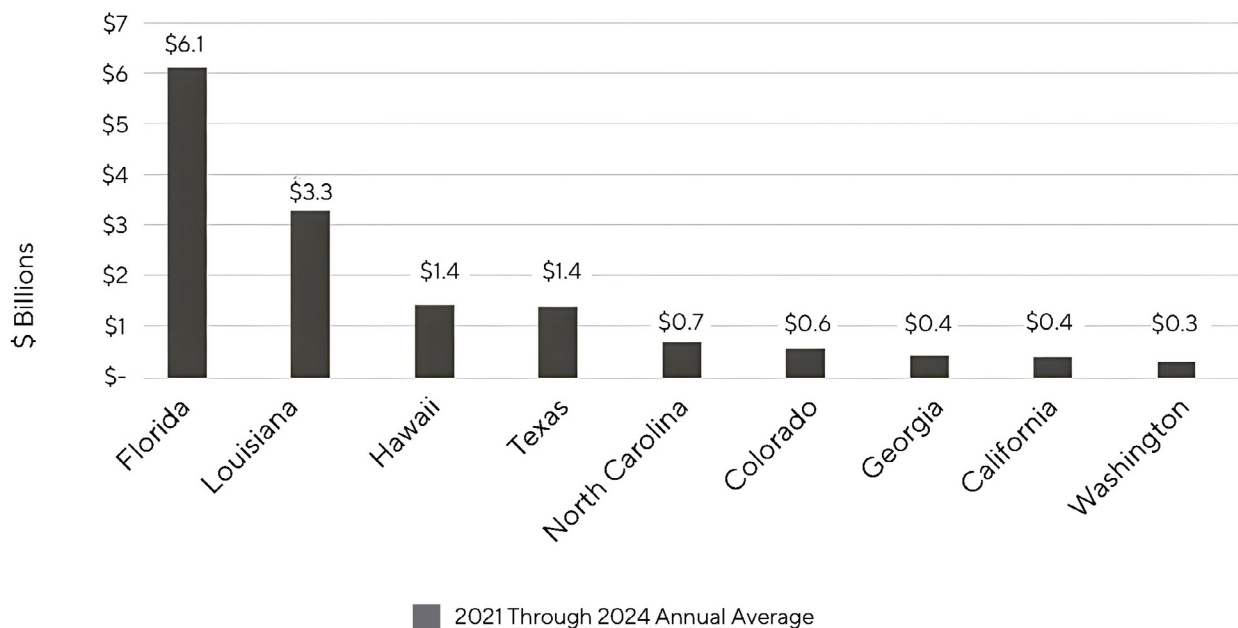
In 2024, the National Centers for Environmental Information (NCEI) recorded 66,760 weather-related disasters, up from 58,060 in 2021. Property damage caused by these events varies by year and state, but

total damage has averaged over \$17 billion annually during that period. Florida suffered the highest property damage in both 2022 and 2024, totaling more than \$24 billion, primarily due to Hurricanes Ian, Helene, and Milton.

California had seen relatively low property damage despite the floods in 2023, until early this year, when the Palisades and Eaton wildfires broke out near Los Angeles. Damage is difficult to estimate, but a [recent evaluation](#) by UCLA's Anderson School put total property and capital losses between \$76 billion and \$131 billion.

Other **southern coastal states**, such as **Louisiana and Georgia**, are at similar risk of hurricanes, while western states regularly face flash flood and wildfire risks. Unsurprisingly, these states average some of the highest property damage from natural disasters per year. The Midwest is plagued by hail, which causes a large proportion of that region's property damage; however, the Midwest states suffer much less financial damage from weather-related events on average.

FIGURE 2
Property Damage



Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs (cont.)

The frequency and severity of natural disasters is exacerbated by climate change. Warmer temperatures lead to more hurricanes, greater risk of drought, and rising sea levels. In 2021, the NCEI recorded 39 hurricanes, and from January through November 2024 that number doubled. From 2010 to 2019, 30 major hurricanes (category 3 or higher) struck the U.S., according to the National Hurricane Center. The first half of this decade alone has already seen 21 major hurricanes. Moreover, rising sea levels expose additional areas to flooding and tidal waves.

As stated above, as of Q4 2024, California, Florida and New York saw the highest CRE insurance expenses. In the table below, red cells indicate higher (more burdensome) values, while green cells indicate lower (less burdensome) values. States that have seen recent jumps in insurance costs include Virginia and Utah, where CRE insurance costs have risen 55% and 69%, respectively, between Q1 2022 and Q4 2024. Insurance as a share of CRE expenses is highest in California and Florida. These two states lead the nation in both insurance costs and insurance as a share of costs.

FIGURE 3
CRE Insurance Expenses and Insurance as a Share of CRE Expenses

| State* | CRE Insurance Expenses | | | Insurance as a Share of CRE Expenses | | |
|--------|------------------------|-------------|-------------|--------------------------------------|----------------------|----------------------|
| | PSF Q4 2024 ↓ | 3-yr change | 1-yr change | Share Q4 2024 | 3-yr change (bps) | 1-yr change (bps) |
| CA | \$ 0.25 | 51% | 0% | 10.52% | 264 | 3 |
| FL | \$ 0.23 | 56% | -3% | 11.85% | 333 | 12 |
| NY | \$ 0.17 | 20% | -7% | 2.69% | 29 | (24) |
| WA | \$ 0.13 | 42% | -3% | 6.42% | 132 | (52) |
| MA | \$ 0.12 | 51% | 3% | 2.86% | 52 | 3 |
| VA | \$ 0.12 | 55% | 13% | 4.50% | 147 | 53 |
| DC | \$ 0.11 | 50% | 1% | 1.97% | 58 | (1) |
| SC | \$ 0.11 | 60% | -15% | 9.06% | 348 | (88) |
| TX | \$ 0.11 | 37% | -2% | 6.04% | 162 | (38) |
| CO | \$ 0.10 | 59% | 3% | 4.46% | 151 | 8 |
| OR | \$ 0.09 | 49% | -10% | 5.41% | 127 | (80) |
| NC | \$ 0.08 | 31% | -3% | 5.53% | 143 | (28) |
| UT | \$ 0.08 | 69% | 11% | 5.27% | 147 | (34) |
| MD | \$ 0.07 | 36% | 3% | 4.95% | 156 | (5) |
| IL | \$ 0.07 | 50% | -4% | 3.39% | 109 | (20) |
| AZ | \$ 0.07 | 26% | -6% | 5.49% | 187 | (51) |
| MN | \$ 0.06 | 4% | -26% | 2.25% | (5) | (84) |
| GA | \$ 0.06 | 57% | 2% | 5.59% | 169 | 1 |
| NV | \$ 0.06 | 36% | 3% | 5.14% | 121 | (1) |
| NJ | \$ 0.06 | 24% | -5% | 4.64% | 76 | (33) |
| PA | \$ 0.06 | 53% | 2% | 5.66% | 101 | (76) |
| TN | \$ 0.05 | 44% | -7% | 6.55% | 247 | 72 |
| MO | \$ 0.05 | 45% | 0% | 6.96% | 252 | 77 |
| OH | \$ 0.04 | 26% | -3% | 5.19% | 64 | (63) |
| IN | \$ 0.03 | 38% | -9% | 5.75% | 42 | (69) |
| KY | \$ 0.03 | 43% | -7% | 6.63% | 144 | (86) |

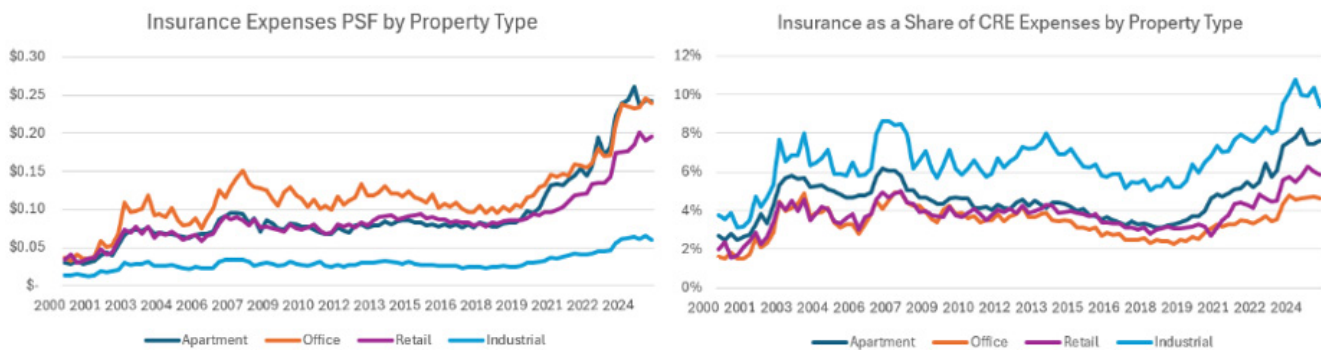
Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs (cont.)

Apartment and Retail Sectors Bear the Brunt of Rising Costs

Individual asset classes have largely mirrored these broader trends in CRE insurance cost growth. In particular, insurance expenses for the apartment and retail sectors have risen even faster than the explosive 49% growth for all CRE sectors over the past three years, jumping 68% for the apartment sector and 61% for the retail sector. In Q4 2024, apartment and office insurance expenses averaged \$0.24 PSF, the retail sector averaged \$0.20 PSF and the industrial sector averaged \$0.06 PSF.

Looking at insurance as a share of expenses by property type, the industrial sector has historically seen the highest proportion of insurance costs (9.4% in Q4 2024), followed by apartment (7.6%), retail (5.8%), and office (4.6%). While all four property types have seen insurance as a share of expenses rise dramatically in recent years, since late 2023, these figures have dropped from historical highs, especially for the industrial sector, which declined from 10.8% in Q4 2023 to 9.4% in Q4 2024, a notable 140 bps drop.

FIGURE 4
Insurance Expenses PSF by Property Type and Insurance as a Share of CRE Expenses by Property Type



FEMA produces a National Risk Index, which illustrates the riskiest markets across 18 natural hazards. Ratings are based on the expected annual loss due to these hazards, along with social vulnerability (susceptibility of social groups to disproportionate effects from natural hazards) and community resilience (the ability of a community to prepare for and recover from natural hazards). Using these data, SitusAMC Insights calculated a population-weighted climate risk score for the top 51 markets that we cover. Of the top 10 riskiest markets, all were located in California or Florida, except for Seattle (due to avalanche and landslide risk). Lowest-risk markets were primarily in the Midwest and inland Eastern States.

FIGURE 5
Highest Ranked Markets and Lowest Ranked Markets

| Highest Ranked Markets | Lowest Ranked Markets |
|------------------------------|-----------------------|
| Los Angeles, CA | Pittsburgh, PA |
| San Bernardino/Riverside, CA | Columbus, OH |
| Miami, FL | Cleveland, OH |
| Orange County, CA | Cincinnati, OH |
| Oakland-East Bay, CA | Suburban Virginia, VA |
| Fort Lauderdale, FL | Indianapolis, IN |
| Palm Beach, FL | Atlanta, GA |
| San Diego, CA | Nashville, TN |
| Seattle, WA | Charlotte, NC |
| San Jose, CA | Raleigh-Durham, NC |

Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs (cont.)

The Role of Reinsurance in Rising Costs

One of the primary ways that real estate market participants can mitigate losses and decrease premiums is through reinsurance on their policies – effectively insurance for insurance. As the Chicago Federal Reserve notes, the use of reinsurance is especially useful when policies are concentrated geographically or bonded together in some way that exposes the joint policies to significant risk. Multifamily, condo, and homeowners' insurance for South Florida is a particularly salient example of this risk, and reinsurance is common – estimated as high as 92% by the Chicago Federal Reserve – in the property insurance market, where geographically grouped policies are common.

In times of catastrophe, whether from hurricanes, floods, fires, earthquakes or numerous other disasters, insurers will draw on reinsurance policies to remain financially solvent. By distributing risk, these policies allow insurers to take on more high-risk policies while keeping portfolio risk tempered – hence their popularity by high-risk insurers in catastrophe-prone areas. However, expense growth in the reinsurance industry has continued to outpace revenue growth, and reinsurers are passing along more cost increases to insurers, threatening the ability of small insurers to operate.

Insurers that are exposed to catastrophe-prone properties are significantly more likely to use non-proportional reinsurance – reinsurance that covers a policy above a certain claim amount. This type of reinsurance is particularly burdensome on reinsurers, even when a layering approach is used. This means premiums charged are often higher than quota reinsurance, for which a reinsurer receives a percentage of a premium, and pays out that same percentage if a claim occurs.

Rising reinsurance pricing likely stems from, in part, the spate of natural disasters that have struck the U.S. over the past few years. In 2024, reinsurers increased the price of reinsurance premiums for insurers by up to 15% for loss-affected accounts, and up to 10% for no-loss accounts at mid-year reinsurance policy renewals. But growth in capital softened rates some by the end of the year, according to Fitch Ratings and AM Best.

The health of the reinsurance market is directly tied to the costs real estate owners may see in the near future. With a robust reinsurance market, insurers will be able to shield themselves from risk and extend more affordable policies to property owners. But if catastrophes continue to worsen in certain areas of the country, reinsurance premiums will necessarily rise to compensate for the additional risk, or insurance premiums will have to cover more risk previously covered by reinsurance. So far, capital in the reinsurance industry has notched gradual increases despite a blip in 2022, recently measured at \$715 billion in the first

three quarters of 2024. But ongoing risks do present capital threats, and therefore a more risk-averse reinsurance market.

Managing the Direct and Indirect Costs of Insurance Inflation

Investors, owners, landlords, and tenants in the real estate industry are grappling with how to manage these costs while still maintaining adequate property coverage. Mitigating the costs of insurance comes down to two factors: direct and indirect costs. The direct cost is the premium on the balance sheet, while indirect costs, including financial exposures from uncovered claims, are difficult to determine and often result in muddled projections. More advanced and accurate valuations are needed to quantify direct and indirect costs and allow for negotiation on better pricing and coverage for their clients.

Property insurance expense increases will vary in the context of the state of the market. Premiums on properties inside catastrophe-prone zones with an unfavorable risk profile should be expected to rise 5% to 15%, according to the USI Market Outlook for 2025. However, properties inside catastrophe zones with a minimal loss history may see premiums decrease as much as 10%, although they could increase 5% at the higher end. In markets expected to see rate increases, the investment environment can mitigate the damage that insurance rate hikes have on valuations.

Certain markets may have strong enough rent growth to compensate for jumps in operating expenses; insurance premium increases can be baked into cap rates. For some properties, insurance occupies only a small part of total expenses – sometimes as low as 2% – meaning property managers can offset a rise in insurance rates via moderate reductions elsewhere. Additionally, institutional investors can use their financial clout to negotiate lower premium increases. These trends have tempered inflated insurance rates and possible future rate hikes as a major issue for appraisers. Since rents have significantly cooled from their record highs in 2021 and 2022, and the U.S. is facing potential economic headwinds, however, mounting and accelerating expenses could make a more noticeable impact on property owners' financials.

Given the pressures in the property insurance market, real estate investors and underwriters should remain attuned to the impact of elevated insurance costs on NOI. For many commercial properties, particularly retail, office and industrial, the use of triple net leases negates much of the concern around rising insurance rates for landlords and property owners. But for multifamily and hotel owners, mounting insurance costs are more difficult to pass on to tenants and guests, and several states regulate the extent to which insurers can pass through costs.

The difficulty with estimating the cost pressures associated with property insurance is the multivariate ways costs can rise for policyholders,

Natural Disasters and Real Estate: The Unprecedented Rise in Insurance Costs (cont.)

depending on location, age, size, and other property characteristics. Many of the current insurance cost pressures are happening in markets with significant exposure to natural disasters, and where past events have left markets deprived of insurance alternatives. But even then, a policy's susceptibility to price increases rests on a unique set of characteristics. For instance, a property in the flood plain will usually be at higher risk for insurance rate hikes, but the increased risk exposure to floods can be offset for properties that conform to more stringent building codes.

The temptation in times of rising insurance costs to switch to other policy plans, however, also comes with caution. The structure of the insurance market – particularly admitted vs. non-admitted carrier options – means a cheaper alternative will almost always exist. Even outside of the private market, several states have robust state insurers of last resort that can provide relatively comprehensive plans if property owners cannot find affordable alternatives.

Insurance providers are financially strained under several pressures, and in an attempt to reduce potential payouts, are decreasing coverage limits and sub-limits within policies. Carriers are also reviewing claims history and payout trends to further remove and limit future policies from paying out coverage. Should insurance price hikes resume, it is not prudent to consider only direct costs when evaluating an insurance policy. Insurance coverage is a promise to pay when a loss occurs, so with increasing property risk exposure, real estate investors need to read the fine print to know what is covered.