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THE INEVITABLE PROPERTY INSURANCE SURPRISE

Owners of properties along the Gulf and mid-Atlantic coasts of the United States may want to prepare for an unwelcome surprise when it comes time to renew their property insurance in 2023.



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THE MARKET WAS TIGHT EVEN BEFORE HURRICANE IAN

For hotel owners in states like Florida, Louisiana, Texas, and the Carolinas, all of which were already dealing with tight insurance markets prior to Hurricane Ian, the devastation brought by last September's storm only served to throw yet another curve ball at the besieged hospitality sector. Insurance rates are again projected to rise by at least 45% to as much as 100% in 2023, according to a recent report produced by Arthur J. Gallagher & Co. USI Insurance Brokerage and Consulting puts the potential year-over-year increase even higher, at upwards of 150%, for those properties in higher risk locations such as New Orleans or the Florida Keys. Even non-catastrophic areas can assume year-over-year increases of 5% to 10%. In Texas, for instance, properties are seeing more "reasonable" 20% increases over the previous year, on average.

Insurance markets have contracted over the last several years, with relatively few new insurers entering the market. McGriff Insurance Services reported an insurer market capacity of \$3 billion in 2022, which represents a dramatic decline from the \$18 billion capacity offered by insurers in 2005. Carriers that had once placed \$100 million of coverage are reducing their exposure to only \$25 million to \$50 million, and the cost of coverage has gone up exponentially. Named windstorm capacity has dwindled substantially, especially in Florida and the broader Southeast. Furthermore, the Council of Insurance Agents & Brokers' Commercial Property/Casualty Market Report stated an increase of 16% for commercial property premiums in the fourth quarter of 2022, continuing a recently unprecedented trend of 21 consecutive quarters of rate increases. Notwithstanding, the insurance industry's losses are still greater than the premiums they charge.

According to McGriff, deep concern is mounting in Florida. Six insurers have declared insolvency in the last year alone. While significant legislative reform is underway and likely to become law, relief is unlikely to arrive for at least two years.



WHAT FACTORS AFFECT INCREASES?

In most cases, rates are most affected by the quality of the underwriting information and the accuracy of insured values on accounts with little to no losses. Owners of properties with a poor loss history and valuations below underwriting models could find it altogether impossible to get the insurance limits they're accustomed to buying, *at any price*. Many properties today are seeking lender approval to purchase lower limits due to issues with availability and increased cost, and those lenders are not always cooperating.

WHAT CAN A HOTEL OWNER DO?

1. Partner with the Carrier

This is, first and foremost, the most important step. Establish a rapport with contact on a regular basis, and not just in the event of a claim. Ensure the carrier is aware of the actions you are taking on property to reduce potential losses. Discuss any concerns you may have about potential risks and ask your carrier for their advice, then follow it!

2. Complete a Thorough Risk Assessment

Share the results of a professionally prepared insurance risk assessment, along with your action plan, with your insurance carrier. Complete the action plan items and share successes with the carrier

3. Develop a Comprehensive Disaster Preparation & Recovery Plan

Cover all items, from a broken sprinkler head to a major catastrophe. Review the plan with the carrier. As part of the plan, be sure to:

- *Interview and identify two or three first responders who will deal with emergencies or catastrophic events*
- *Agree up front on pricing for all labor and equipment needed in times of emergency*
- *Gain the carriers' approval of the companies to be used and their pricing*
- *Sign a Master Services Agreement with at least two service providers, allowing for flexibility in selection based on available resources in time of need*
- *Train staff and employees on executing the plan at the time of an emergency situation*



THE BOTTOM LINE

Owners should start the insurance underwriting process early, making sure that values are updated to accurately reflect the current costs of repairs and construction in the local market. If there are open or pending insurance claims at the property, move swiftly to get them closed or obtain a sound estimate of the value at which they will eventually close.

Review and understand your property's historical insurance losses and work with a capable insurance broker to determine the necessary insurance limits and deductibles. Take a proactive approach now to protect the asset in the event of a future loss.

If The Plasencia Group may be of assistance in evaluating your current property insurance situation, please call us directly at (813) 932-1234. Visit us online and opt-in to our communications list at tpghotels.com/company-news

About The Plasencia Group

In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Thirty years and hundreds of engagements later, we still have the privilege of making our clients successful with the passion, access, and certainty they've come to expect. Our firm offers investment sales, owner representation, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the weeks and months ahead. We look forward to the opportunity to serve you.

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