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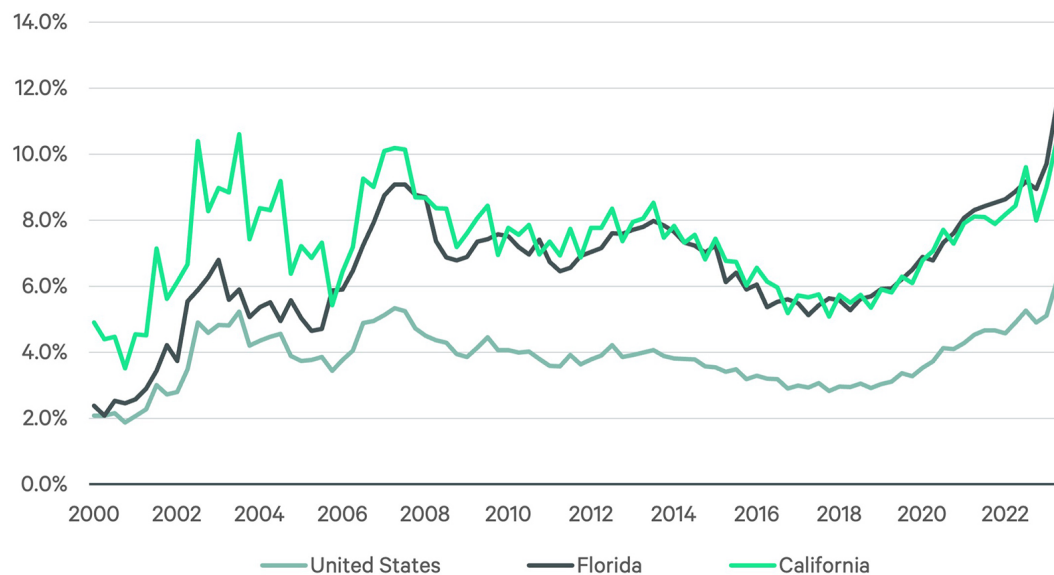
Brief | Intelligent Investment



Insurance costs are no longer worry-free

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Insurance Costs as a Share of Operating Expenses on a Per Square Foot Basis (%)



Over the past few years, property & casualty insurance has become more expensive and generally less available as certain carriers have withdrawn from states like Florida and California that are seen to be most at risk to climate change effects.

Figure 1 plots insurance costs as a percentage of total operating expenses. You can see that insurance costs have spiked since 2019. For all Florida-based properties within the NCREIF database, insurance accounts for 11.5% of total operating costs – up from 6.5% in Q4 2019, while in California, they have risen to over 10% from roughly 6% in the same period. While Florida and California are outliers, the trend is truly national: the U.S. overall has doubled to just over 6%, albeit off a relatively low base.

To be fair, insurance costs are dwarfed by taxes—which have increased markedly during the past decade—as well as certain other operating costs, such as utilities. Figure 1 also reminds us that insurance costs are cyclical as carriers often temporarily raise premiums to cover short-term losses only to cut later to gain market share. However, based on the current trajectory, insurance could overtake utility costs in a few years. Investors should, therefore,

closely examine past assumptions about operating cost growth and give this consideration when underwriting property acquisitions.

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