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## Recent Developments in Property Insurance

## OVERVIEW OF RECENT DEVELOPMENT IN RESIDENTIAL AND COMMERCIAL PROPERTY INSURANCE

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- *Residential and commercial property insurance premiums have risen sharply during the past two years and often availability has been limited.*
  - *This study examines market structure and performance indicators to quantify price and availability trends.*
  - *Evidence suggests that price increases for property insurance in many areas are now decelerating. Insurance markets remain tight in areas with environmental hazards or with elevated exposure to natural disasters.*
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There are numerous media accounts of rising homeowners' insurance prices and limitations on availability or coverage. Commercial property insurance markets have experienced similar problems, with the added impediment of limitations on insurance coverage for terrorist events.

### THE STUDY

A number of reasons have been cited for adverse price and availability trends. This study examines key market structure and performance indicators to quantify price and availability trends. The authors discuss patterns revealed by available data and offer opinions on factors affecting insurance markets.

### FINDINGS

**Homeowners' Insurance.** This report confirms that the price of homeowners insurance has risen sharply in many areas and that increases have varied considerably across states. A number of states experienced price increases in excess of 10 percent in 2002, and in some states increases were much higher. There also is evidence that homeowners in several states have had to search more widely for coverage. Some homeowners have been forced to switch to less desirable state-sponsored insurance plans with limited coverage.

The cost of claims also has risen rapidly leading to further price increases and tightened availability. Fierce competition among insurers during the

1990s caused premiums to lag behind cost increases. Large rate hikes then became necessary to bring premiums to adequate levels. The costs associated with, and greater uncertainty about, new risks, such as mold contamination, have contributed to adverse price and availability trends in some jurisdictions. Weather-related perils and natural disasters also have contributed to rising costs and premiums in a number of states.

There are indications that the supply of homeowners insurance is increasing in some areas, which should have a beneficial impact on prices and availability. This is more likely to occur in states where premiums have reached adequate levels and costs appear to be under control. However, there are other jurisdictions where prices remain inadequate to cover costs leading to further premium increases.

**Commercial Property Insurance.** The price of commercial property insurance accelerated rapidly in 2002 following the 9/11 terrorist attacks. In addition, a significant portion of property owners/managers surveyed indicated that their insurance coverage was cancelled or not renewed in 2002-2003 forcing them to obtain coverage from another carrier, often at a higher premium. Premiums paid by most businesses rose by at least 10 percent with increases of 30-50 percent relatively common between late 2001 and the third quarter of 2002. Beginning in the fourth quarter of 2002, price increases began to decelerate and the overall market now shows signs of softening.

In late 2001, terrorism coverage was very costly and often unavailable until the federal government established a backstop program. Concern about terrorism risk varies for commercial structures, depending on their location and profile. There are indications that the price of terrorism coverage is falling allowing more businesses to purchase coverage.

### IMPORTANCE FOR REALTORS®

This study corroborates many of the experiences that homeowners and commercial property owners have described. Real estate professionals have experienced these problems first hand in their capacities as brokers and property managers. Further disruptions would not only adversely affect property owners, but also the real estate market and the costs associated with the timely buying and selling of property.

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\*The complete report is available at <http://www.realtor.org/research.nsf/pages/NatlcenterforRE>