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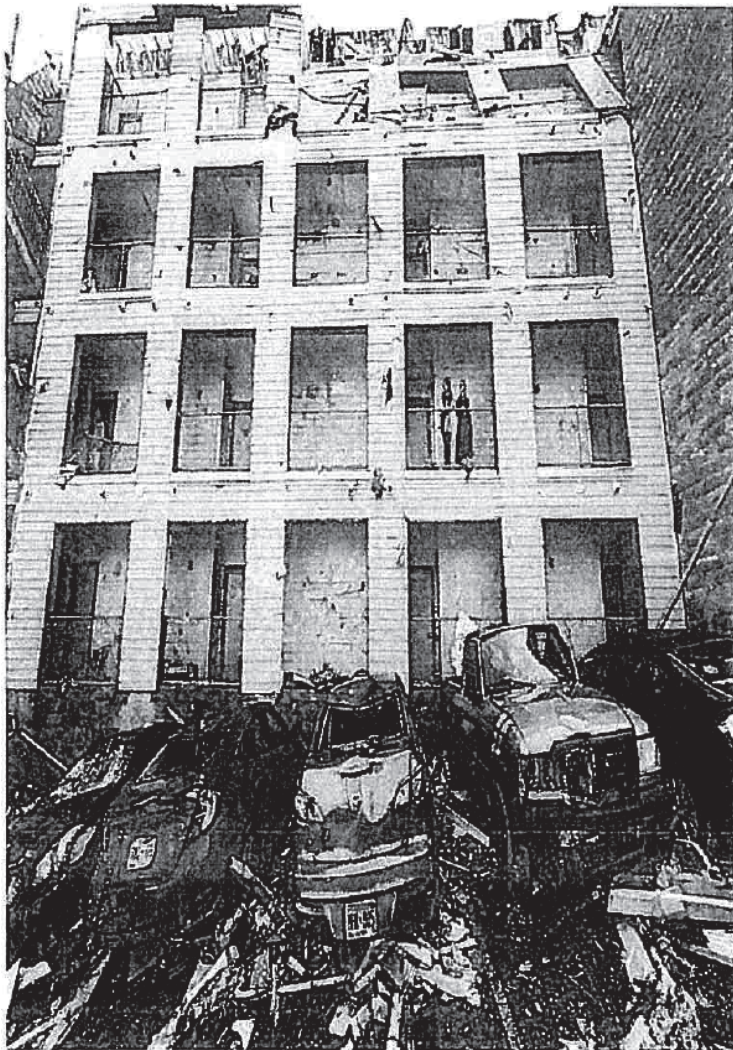
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REALESTATE

Rising Insurance Costs Another Blow to Bruised Apartment Landlords

Renewal rates for multifamily insurance rose 33% over past year compared with 23% for the real-estate sector at large



Amplify Apartments were damaged after a tornado hit Nashville on March 2.

PHOTO: HARRISON MCCLARY/REUTERS

Will *Nicole*
By *Parker* and *Friedman*
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Insurance premiums for apartment buildings have been rising faster than for the rest of commercial real estate, further squeezing landlord profits during a challenging period to collect rent.

Renewal rates for multifamily insurance increased 33% on average over the past year, compared with 23% for the real-estate sector at large, according to insurance brokerage Marsh, a unit of Marsh & McLennan Cos.

Insurers expect rates to keep climbing. Global insurance prices could jump faster in 2020 if the global outbreak of the Covid-19 pandemic leads to a large number of insurance claims around the world.

“It would be hard to envision the recent Covid events not contributing to pricing escalations over the next several quarters,” said Brett Holmgren, director of consulting at Robert M. Currey & Associates Inc., which helps real-estate companies manage their risks. “It is certainly not going to help.”



The tornado left debris scattered across an apartment parking lot in Nashville.

PHOTO: COURTNEY PEDROZA/ASSOCIATED PRESS

Some insurers pulled back from selling insurance to apartment owners in 2019, and the decrease in competition also contributed to the jump in premiums, said

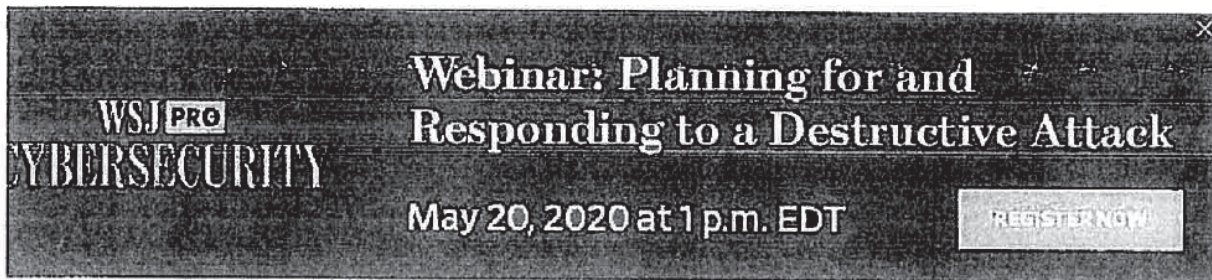
Marc Reisner, managing director of multifamily at Marsh.

Apartment owners face higher insurance premiums as they suffer the fallout from rising unemployment during the pandemic and widespread shelter-in-place orders. Since mid-March about 13% of the U.S. labor force has sought jobless assistance. About

16% of U.S. tenants failed to pay rent through April 12, according to the National Multifamily Housing Council, and many expect that figure to be higher in May.

The jump in insurance costs has come as a surprise to many apartment landlords who for years counted on predictable premiums. "I think clients got very used to seeing a renewal and every year insurance premiums would either be consistent or go down," Mr. Reisner said.

Even property owners that experienced rate increases well below the 33% average said it still stings.



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"Industry standards would be to underwrite a 2% or 3% increase," said Raphael Mandelbaum, a New York-area landlord who saw his premiums increase 7% this year. "So 7% is a big jump."

Claims history accounts for much of the difference in premium increases from landlord to landlord, Mr. Reisner said. Other considerations include geographic factors that put portfolios more at risk for natural disasters.

But some landlords are reporting large swings in premiums despite making no new insurance claims in recent years.

Jones Street Investment Partners, which owns about 3,500 apartments in the Northeast, is paying 50% more for property and liability insurance this year compared with last year, said Chief Executive Matt Frazier. The company didn't file any property-insurance claims last year, he said. Insurance was already the company's third-biggest expense, after property taxes and payroll, and it now accounts for 2.5% of its total revenue.

“The risk profile of our portfolio didn’t change from one year to the next,” Mr. Frazier said. “It’s hard in our business to have your third-biggest operating expense be something that you have no ability to understand or forecast.”

With rents at or near all-time highs in many American cities, boosted by high home prices and booming demand for apartments, landlords didn’t have much room to push rents any higher to offset larger premium costs. Now, widespread unemployment could lead to lower rent prices in some regions.

Premiums for new construction of apartment rentals are also rising. Fore Property, a development firm that has built some 25,000 apartments over the past three decades, recently saw a 100% increase in its insurance for buildings under construction, according to its Vice President Howard Stocking.

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