

Florida, California insurance crisis is spreading. Is your state next?

[cnbc.com/2024/07/02/florida-california-insurance-crisis-spreading-your-state-next.html](https://www.cnbc.com/2024/07/02/florida-california-insurance-crisis-spreading-your-state-next.html)

July 2, 2024

Key Points

- Insurance premiums are rising in many states following multiple climate disasters.
- The crisis is altering both the residential and commercial real estate markets, as deals fall apart over the cost and availability of insurance.
- Because the impact varies from state to state, insurance issues are changing the competitive landscape.



watch now

VIDEO02:41

Many properties nationwide risk losing their insurance

An insurance crisis that has sent premiums skyrocketing and caused carriers to flee coastal states like Florida and California is spreading, and it is fundamentally changing the real estate market in states across the country.

"Not only is the cost higher than people anticipated, but just the inability to secure insurance at all makes deals fall through before they even happen," said Bill Baldwin, owner of Boulevard Realty in Houston.

Increasingly, Baldwin said, he and other brokers are seeing insurance companies swoop in just as deals are about to close, making nearly impossible demands.

"A new roof, for roofs that are only seven years old, or 10 years old. They want trees cut down that are within 20 feet of the edge of the house. Oftentimes those trees are on the neighbor's property," he said.

"And when that can't happen, you can't get insurance, which causes the sale to fall through."

A similar dynamic is playing out in commercial real estate, said Ross Markowitz, director of insurance risk management at AEW Capital Management, a global real estate investment advisory firm in Boston.

"We're having to really educate our internal teams," he said. "Don't expect your buyers to be able to get the pricing of insurance that we have, so they'll probably [want] to offer less for the deal."

Mounting insurance losses

The new dynamic comes after several years of staggering losses for the insurance industry from natural disasters, including nearly \$80 billion in insured losses last year alone, according to the Insurance Information Institute.

"It's directly related to climate risk," said Jeremy Porter, head of climate implications at the nonprofit First Street Foundation, which quantifies climate-related risks. He said that insurance companies are increasingly interested in the organization's data.

"Insurance companies are responding to the fact that we're seeing more frequent and more severe climate events, and the fact that they're paying out more than they're bringing in," he said.

Leash Yu, managing director of personal lines at Higginbotham in Houston, said insurance carriers are scrambling to maintain their financial ratings and, in some cases, just to stay in business.

"There's three things they can do. They can drastically increase rates, they can get rid of some of their risks, or they can severely limit the type of the new business that comes in," he said. "And some carriers are doing all three."

Hurricanes, wildfires and extreme premiums

The crisis showed up first in Florida, which has endured three major hurricanes in two years. Florida policyholders now pay nearly five times the national average, according to Insurify. With multiple carriers either leaving the state or going out of business, the state's insurer of last resort — Citizens — has seen its policy count triple in four years, to nearly 1.2 million. Now, Citizens is asking regulators to approve a 14% rate increase.

In California, where at least eight carriers have left the state or limited their exposure, that state's insurer of last resort — the California FAIR Plan— has seen a 14% jump in policyholders this year alone, and a 137% increase since 2019.

In Louisiana, homeowners are paying roughly three times the national average, according to Insurify.

Competitiveness concerns for corporations

"From a site selection perspective, those high insurance rates make it more difficult for companies to recruit and retain a workforce," said site selection consultant John Boyd, Jr., a principal with The Boyd Company in Florida. "You think about the pressure transferees are already under with record home prices, high mortgage rates, soaring child-care and health-care costs. This insurance crisis is a major problem."

Because of that, and because of the impact of higher premiums on commercial real estate, CNBC is factoring insurance into the 2024 America's Top States for Business study. Under this year's methodology, the Cost of Doing Business category considers regional commercial property casualty premium increases as compiled by the Council of Insurance Agents and Brokers. The Cost of Living category looks at the cost in each state to insure a median priced home, based on data from the National Association of Insurance Commissioners and Redfin.

Based on 2021 premiums — the most recent full year available — the most expensive state to insure a median priced home was Colorado at \$2,650 per year, followed by Florida at \$2,474, Massachusetts at \$2,226, Texas at \$2,194 and California at \$2,124. The least expensive state was Wisconsin at \$702.

Risk of policy higher rates could ease in 2025

Some experts are hoping that the increases might be about to ease. After all, they note, the insurance business is notoriously cyclical, and insurance companies are trying hard to right the ship.

"If the rate increases, risk reductions and the claims mitigations efforts that they are utilizing right now are successful, then hopefully, in 2025, we'll see a leveling off," said Yu.

However, some states are not waiting.

In Florida, Gov. Ron DeSantis last year signed a tort reform bill aimed at curbing policyholder lawsuits and luring insurers back to the state. In California, Gov. Gavin Newsom has proposed making it easier for insurers to get approval for rate increases, while also backing a proposal to require them to write more policies in distressed areas.

But there is no telling when or if any of that will occur. So, in the meantime, real estate broker Bill Baldwin is urging clients to get approved for insurance early on, much like they are already getting pre-approved for a mortgage.

"You have to go secure that insurance much earlier than ever before in the process," he said. "And that's just not something that we're used to."