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Rising insurance costs may scare away some property investors

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South Florida's ongoing increases in commercial property insurance rates hinder most investors' ability to buy property and leads half of them to look for more deals outside the region, says a survey by CB Richard Ellis.

In the survey, which the property management and leasing firm released on May 22, two-thirds of respondents said their property insurance rates have risen 30 percent or more this year.

About 74 percent said high insurance costs are hindering their ability to buy South Florida properties.

CB Richard Ellis officials added: "47 percent stated that insurance rates have caused them to shift investment focus outside of South Florida."

The number of property owners reporting insurance rate hikes of 30 percent or more "surprised me a bit," based on several investors' earlier reports that rates were not rising that steeply, said Paul Cohen, director of CB Richard Ellis's private client group in Miami.

This year's higher insurance rates, primarily for windstorm coverage, follows 2006 "in which we saw some rates double," Cohen said.

The survey showed the cumulative impact is leading some survey respondents to look for real estate investments in Las Vegas, Tennessee and non-coastal cities in Texas, Louisiana, North Carolina and South Carolina.

CB Richard Ellis sent its survey to 3,321 investors who own South Florida commercial properties, including investors based outside the region. The firm received 166 responses. That response rate of 5 percent is higher than the 3 percent CB Richard Ellis requires to publish survey results.

Of the respondents, 72 percent are private investors, 20 percent are institutional investors and 6 percent were tenants or occupants. The remaining 2 percent did not fit any of the categories.

On the question of changes in insurance rates since 12 months ago, 18 percent of respondents said rates have increased about 20 percent. In addition, 2 percent said rates increased 10 percent, 8 percent said rates were about the same, 2 percent said rates were 10 percent lower and 4 percent said they did not have property insurance.

Even though insurance costs are making it difficult for some potential purchasers, Cohen said his firm has not experienced slower sales on its contracted buildings.

"This says that if 20 people are interested, maybe 14 can't buy," he said. "This can make the process harder. But we just need one buyer."

Many investors who can afford to retain and add South Florida properties are major property owners, some based in South America and Europe, who have master insurance policies that cover multiple properties at lower rates than single properties, he said.

This year's low value of the dollar also is attracting many Asian as well as European investors to South Florida, Cohen said. That currency differential and access to master polices can counter high insurance costs.

Investors who own a smaller number of properties, including buildings they occupy in South Florida, are feeling the biggest impact.

"If they need to be in South Florida, they will buy the building and pay the insurance costs," Cohen said.

But the threat of hurricanes creates a big potential problem in calculating their businesses' long-term net worth.

For investors, insurance is becoming a bigger part in comparing South Florida with other markets, Cohen said. That includes determining the capitalization rate (annual return on investment) and cash flow on a property.

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