The Real Estate Roundtable

Commercial Insurance Coverage in an Evolving Threat Environment

Capital and Credit

Summary

The proliferation of natural catastrophe threats has raised concerns about commercial insurance coverage for real estate. These concerns have highlighted the lack of—and need for—insurance capacity and various lines of commercial insurance. Risks from natural disasters like floods, hurricanes, wildfires, hail, tornadoes, and drought cost the U.S. billions of dollars each year. Even if policyholders are able to find coverage for these various lines, prices are increasing dramatically. A lack of adequate coverage will lead to economic uncertainty, harm stakeholders, and undermine the growth of communities.

U.S. commercial property insurance premiums grew by **over 15 percent annually** between 2019 and 2024, doubling as a share of rental income and operating expenses. The national average growth rate reached **7.6 percent** (with some markets seeing year-over-year surges exceeding **17 percent**), well above historical norms of 2 percent to 3 percent.

Multifamily and apartment properties experienced the highest median compound annual growth rates (CAGRs) and frequent annual increases exceeding 10 percent. Apartment insurance costs jumped an average of **45 percent year-over-year** in 2024 alone.

Spending legislation passed this year has reauthorized the National Flood Insurance Program (NFIP) through Dec. 11, 2026.

RER, along with its industry partners, continues to work constructively with policymakers and stakeholders to address market failure and enact a long-term reauthorization of an **improved NFIP**.

Key Takeaways

- Natural catastrophe losses have tripled over the past decade, with severe storms surpassing hurricanes as the costliest insured weather peril.
- Commercial property insurance premiums continue to rise, with apartment insurance costs increasing an average of **45 percent year-over-year in 2024**.
- Construction costs have risen nearly **40 percent since 2020**, leaving many properties insured below their actual replacement value.
- Commercial property owners continue to take steps to mitigate the risk of natural disasters and potentially lower their insurance costs.

Background

National Flood Insurance Program (NFIP)

- Floods are the most common and costliest natural peril in the U.S. Established in 1968 and administered by the Federal Emergency Management Agency (FEMA), the NFIP provides essential flood insurance coverage where private insurance is limited.
- Under the NFIP, commercial property flood insurance limits are low—$500,000 per building and $500,000 for its contents. NFIP has approximately 5 million total properties, and only 6.7 percent are commercial. Nearly 70 percent of NFIP is devoted to single-family homes and 20 percent to condominiums. In the total program, 80 percent pay actuarially sound rates; however, in the commercial space, only 60 percent pay actuarially sound rates.
- NFIP faces long-standing solvency and flood mapping challenges that require structural reform. The unintended negative outcomes generated by the NFIP continue to grow and are now spreading to government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.
- Since 2017, Congress has extended the NFIP's authorization 36 times.

- As policymakers continue to debate potential changes and improvements to the program, their challenge is to find a balance between improving the financial solvency of the program, reducing taxpayer exposure, and addressing affordability concerns.

Recommendations

Enact a Long-Term Reauthorization of NFIP: The level of flood damage from recent storms makes it clear that FEMA needs a holistic plan to prepare the nation for managing the cost of catastrophic flooding under the NFIP.

- RER and its partners support a long-term reauthorization of an improved NFIP that helps property owners and renters prepare for and recover from future flood losses. NFIP is **essential** for residential markets, overall natural catastrophe insurance market capacity, and the broader economy.

Increase Private Market Participation: By permitting certain private issue insurance policies to satisfy the NFIP's "mandatory purchase requirement" for properties in flood plains financed by loans from federally guaranteed institutions, commercial property owners would have the ability to "opt out" of mandatory NFIP commercial coverage if they have adequate private coverage outside the NFIP to cover financed assets.

- Lenders typically require base NFIP coverage, and commercial owners must purchase Supplemental Excess Flood Insurance for coverage above the NFIP limits. The NFIP's low commercial limits make it problematic for most commercial owners.
- As a result, RER has been seeking **a voluntary exemption** for mandatory NFIP coverage if property owners have flood coverage from commercial insurers.