

# MANAGING SHOPPING CENTER RISK: A Shopping Center Landlord’s Guide to Mitigating Rising Property Insurance Premiums

Commercial property owners are experiencing “sticker shock” as premium increases continued in Q1 2024 with insurance premiums increasing 7.7%, slightly up from the previous quarter’s 7.0% (26th consecutive quarter of increases).<sup>1</sup> I had the opportunity to sit down with Clay Arvola, Vice President at Lockton, to discuss exactly what is occurring in the Commercial Property Insurance Market and how shopping center owners can best manage such risk and increased premiums.

## 1. Before we get started, can you provide a background on who you are and what you do within the Commercial Real Estate Industry at Lockton?

I am Clay Arvola, Vice President at Lockton, where I assist real estate firms and developers with all aspects of their insurance programs. With my background as a former underwriter at Travelers Insurance, I bring a deep understanding of the industry to my role. I work closely with clients to develop comprehensive risk management strategies that protect their investments and help them achieve their business goals.

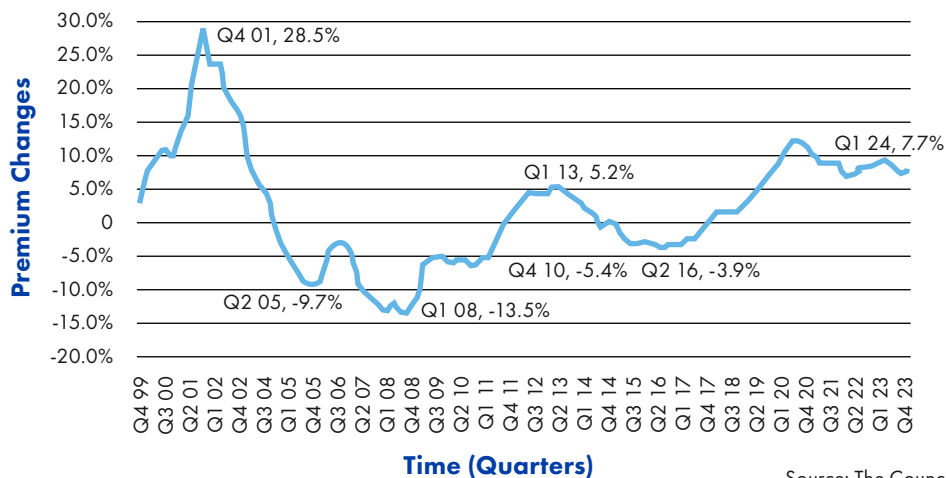


## 2. Can you summarize what is happening in the Commercial Property Insurance Market right now as it pertains to the significant rate increases? What would you consider to be the primary drivers of increased premium costs for retail shopping center owners?

The Commercial Property Market is currently experiencing significant rate increases driven by several key factors:

- **Carrier Unprofitability:** Many years of substantial losses have led to a period of unprofitability for carriers.
- **Higher Reinsurance Costs:** Starting in late 2023, increased reinsurance costs have had a significant impact on renewals.
- **Natural Catastrophe Losses:** Unexpected natural catastrophes in unanticipated geographies and unusual times of the year have exacerbated losses.
- **Inflationary Environment:** The inflationary environment has resulted in actual losses settling higher than expected.

**Average Premium Changes, Q4 1999 - Q4 2023**



Source: The Council of Insurance Agents & Brokers

<sup>1</sup> The Council of Insurance Agents & Brokers – Q12024 Market Report

### 3. Are there any risk mitigation practices you are recommending to shopping center owners to avoid such a significant increase?

For shopping center owners, we recommend the following risk mitigation practices to avoid significant rate increases:



#### Data Accuracy and Confidence

- Ensure the reported property values are accurate and up-to-date.
- Gather detailed data on construction specifics, including building materials and safety features.



#### Engineering Reports

- Obtain engineering reports from carriers or third-party experts to validate the structural integrity and safety measures of your properties.



#### Natural Catastrophe Preparedness

- For properties in areas prone to natural disasters, collect detailed data on secondary characteristics (e.g., roof type, window protection) to improve the accuracy of catastrophe modeling.



#### Loss History and Lessons Learned

- If there is a history of losses, document the lessons learned and the measures taken to prevent similar incidents in the future.



#### Market Engagement

- Proactively meet with both incumbent and potential new insurers to present your data and risk management strategies, effectively selling your story.

### 4. What are the primary mistakes you see shopping center owners make with their risk management program?

One of the primary mistakes we observe is the implementation of fragmented insurance programs with different carriers and varying effective dates. This approach leads to significant administrative challenges, as companies must manage multiple renewal dates and contend with inconsistent coverage across their portfolio. Furthermore, this fragmentation prevents owners from leveraging the collective value of their entire portfolio to negotiate the best pricing and terms.



### 5. Aside from Property and General Liability coverage, what are some of the other types of coverage that are important considerations for shopping center owners?

The most common gaps we see are in Cyber Coverage and Professional Liability Coverage. Here's why these are important:

#### Cyber Coverage

- Shopping centers rely heavily on digital systems for tenant management, lease agreements, and operational logistics. A cyberattack could lead to unauthorized access to sensitive tenant information, disruption of operations, and potential financial and reputational damage. For example, if a shopping center's tenant management system is hacked, tenant data, including financial information and lease agreements, could be compromised. Cyber coverage helps protect against the costs associated with such data breaches, cyber extortion, and other cyber incidents.

- **Professional Liability Coverage**

- Real estate developers are exposed to professional liability claims arising from negligent oversight of development activities. While traditional Real Estate Developers Professional Liability policies cover contractual responsibilities outlined in the master services agreement, they often exclude fund management services. An Investment Advisor Management and Professional Liability (IAM) policy is crucial as it combines Directors and Officers (D&O) and Errors and Omissions (E&O) coverages. This policy covers activities such as capitalization, formation, solicitation, operation, and marketing of capital-raising projects, ensuring comprehensive protection for the complex organizational structures of development firms.

**6. Obviously, construction costs and the current interest rate environment have impacted the economy significantly over the past 2 years. Are you seeing issues arise pertaining to valuations being outdated and therefore retail centers being susceptible to either underinsured or overinsured policies?**

Valuation has become a critical issue. Owners who have not steadily increased their replacement cost values can sometimes face significant increases at renewal, leading to higher premiums. It's important to start renewal discussions well in advance to develop a strong narrative around their valuations. By proactively adjusting values to account for the increased cost of construction and inflation, clients can often achieve more favorable rates from underwriters at renewal. This proactive approach is essential to avoid coverage penalties, including coinsurance penalties, which can result in assuming more risk than anticipated due to underreported values at the time of loss. For Landlords with large blanket limits across their entire portfolio, we routinely conduct natural catastrophe modeling on renewals to better understand underwriter perspectives and help evaluate appropriate limits and deductibles. This also aids in negotiations with underwriters.

**7. For owners that have NO history of losses related to their shopping center, should they expect an increase in rate and, if so, how much?**

Shopping center owners with favorable loss histories and proactive risk management practices can anticipate a more stable and predictable renewal process in 2024, with potential for moderate rate increases depending on their specific risk profile. For shopping centers with no history of losses, single carrier placements are likely to experience flat to single-digit rate increases. Accounts with higher natural catastrophe exposure might be on the higher end.

General Liability and Umbrella coverage rates have slightly increased due to more punitive juries and significant rises in third-party claim payouts.



**8. Should we expect more increases as we head into the second half of 2024? If so, what are 3 things you are advising shopping center owners to do to mitigate and improve their risk management program?**

As we head into the second half of 2024, shopping center owners should anticipate continued stabilization in the property insurance market. However, potential rate increases are likely still to occur, especially if there are significant hurricane and natural catastrophe events this summer.

To mitigate these potential increases and improve their risk management program, shopping center owners should:



**Enhance Data Accuracy and Quality**

- Ensure that property valuations are accurate and updated regularly. Work with brokers to thoroughly evaluate each property and adjust replacement values individually. Accurate data directly impacts pricing and underwriting outcomes.



**Engage in Proactive Risk Management**

- Highlight efforts to mitigate potential losses in underwriting submissions and renewal discussions. This includes measures taken to prevent property losses from water damage and casualty losses from violence and other exposures. Proactively managing risk helps differentiate your risk profile and can lead to more favorable renewal outcomes.



**Evaluate Retention Options and Use Advanced Analytics**

- Consider taking on more risk by evaluating higher self-insured retentions. Coupled with aggressive loss control and claims management practices, this approach can help reduce premium costs. Utilize advanced data and analytics to make informed decisions about program structure and risk financing strategies.

## 9. Does Lockton have any proprietary data tools to help shopping center owners show underwriters what they are doing to make their property or portfolio a better risk?

Yes, Lockton offers a proprietary tool called the Property Visualization Tool (PVT). The PVT simplifies complex engineering data into an easily understandable format, helping clients organize areas of concern, highlight opportunities, and present actionable data to underwriters.

Key functionalities of the PVT include:

- **Digesting Data**
  - Automates and simplifies complex engineering data into a user-friendly model.
- **Strategizing**
  - Helps clients consolidate programs and demonstrate a collective engineering strategy, presenting a comprehensive and proactive risk management approach.
- **Marketing**
  - Highlights engineering successes with key metrics, enabling clients to share their proactive risk management efforts effectively.

### How the PVT Helps Our Clients:

The PVT enhances client decision-making to improve risk profiles and obtain favorable considerations from underwriters. It allows clients to visualize property risks, derive actionable insights, access near real-time information, and prioritize decisions based on cost-benefit analyses.

By utilizing the PVT, clients can better engage key stakeholders, take control of their engineering plans, and improve their overall risk profile, making them more attractive to underwriters.

## 10. If people want to get a hold of you to follow up on anything we discussed today, what is the best way to reach you?

I am available for follow-up discussions via email at [carvola@lockton.com](mailto:carvola@lockton.com) or on my cell phone at 618-830-5161. Please feel free to reach out to me with any questions or for further information.

## For Additional Details Contact:

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