

# Insurance Implications of Climate Change for Commercial Real Estate Properties

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As the devastating hurricanes of the past couple weeks have shown, extreme weather events are becoming more frequent and intense due to climate change. While the northeast is less prone to hurricanes than regions like the Gulf Coast, it is not immune to the extreme weather impacts like severe storms, increased flooding, and changing precipitation patterns, which can affect risks of property damage and resulting increased insurance premiums. As climate-related events such as wildfires, floods, hurricanes, and extreme temperatures become more frequent and severe, insurers are adjusting their policies to account for heightened risks. Here are some key insurance implications that commercial property owners need to be aware of:

## Increased Premiums and Deductibles

With the rising frequency and intensity of climate-related disasters, insurers are facing greater financial losses. To mitigate these risks, many insurers are increasing premiums for properties located in high-risk areas, such as coastal regions prone to hurricanes or low-lying areas vulnerable to flooding. In some cases, deductibles for specific perils (e.g., windstorm or flood damage) may also be higher, making it more expensive for property owners to recover from a loss.

## Changes in Coverage Terms

Insurers are not only raising costs but also adjusting policy terms to limit their exposure to climate risks. This can involve reducing coverage limits for certain types of events, adding exclusions for specific climate-related perils, or requiring more stringent maintenance and loss prevention measures as a condition for coverage. For instance, properties in wildfire-prone regions may need to implement defensible space measures or install fire-resistant building materials to qualify for insurance.

## Difficulty Obtaining Coverage

In some high-risk areas, insurers may choose to withdraw coverage altogether, leaving property owners with limited options for insuring their buildings. This can lead to an increased reliance on state-backed insurance programs or surplus lines insurers, which often come with higher costs and less favorable terms. As certain regions become “uninsurable,” it could impact the property’s value and the ability to secure financing, as lenders typically require adequate insurance as a condition for loans.

## Impact on Property Valuations

The insurance challenges posed by climate change can directly affect the value of commercial real estate. Properties facing high insurance costs or difficulties in securing coverage may be seen as less attractive to investors, potentially leading to lower market valuations. Moreover, some investors are beginning to incorporate climate risk assessments into their due diligence processes, which can further influence valuations and transaction terms.

## Opportunities for Risk Mitigation and Incentives

While climate change presents substantial risks, it also creates opportunities for property owners who invest in climate resilience. Insurance companies may offer premium discounts or better terms for properties that implement risk mitigation measures, such as storm-proofing, flood defenses, or energy-efficient upgrades. Additionally, some jurisdictions provide incentives, such as grants or tax breaks, for property owners who enhance the climate resilience of their buildings.

## The Rise of Parametric Insurance

As traditional insurance becomes more restrictive, parametric insurance is gaining popularity as an alternative. Unlike traditional policies that reimburse for actual losses, parametric insurance pays out based on predefined triggers, such as a specific amount of rainfall or wind speed. This can provide faster payouts and fill gaps where conventional insurance coverage

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may be insufficient.

The implications of climate change for insurance in the commercial real estate sector are profound, with significant impacts on costs, coverage availability, and property valuations. Property owners and investors need to proactively assess climate risks and explore ways to mitigate these risks through resilience measures and innovative insurance solutions. By doing so, they can better navigate the evolving insurance landscape and protect their investments in the face of a changing climate.

Understanding these trends and taking proactive steps to manage climate risks will be essential for maintaining the value and insurability of commercial properties in the years to come.

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