



HENDERSON BROTHERS

LANDLORD DILEMMA FOR PREMIUM ALLOCATIONS

It is customary in many cases for an entity with large real estate holdings to allocate insurance premiums to their tenants which is clearly outlined in a lease agreement. The current property market has made this task tougher and tougher.

In the soft market the premiums for multi-tenant buildings/locations were easily broken out by location based on square footage or in some occasions the actual property premium by building. The current hard market has insurance companies enforcing many standards such as replacement value, proper sprinkler protection to match the type of items stored and restrictions on the height of storage for certain items. These standards are making the equitable pass through of the increased insurance costs much more difficult for landlords of large facilities. Landlords are faced with drastically increased premiums and sometimes it is caused by one very large tenant or a large building that does not meet the current protection/storage standards that are being required by the current insurance market. A landlord is in a difficult situation on passing on such a large increase without the possibility of losing a large tenant that has been at their location for many years. The following are two common problems we are seeing our large landlords having to deal with when it comes time to pass on a substantial premium increase to one or multiple tenants.

Scenario One

The landlord has a very large building that was built to code many years ago. The same tenant may still occupy the space but has grown and now requires additional storage space in volume and height. They may have started to store items that are now considered more flammable than what they originally stored. In addition the NFPA standards have been amended and require additional sprinkler protection than was required when the building was originally constructed. The area where the building was constructed now may have been developed and the water pressure supplying the sprinkler system was acceptable when the building was built but now is insufficient based on new NFPA requirements. A new/revised sprinkler system is very costly and may not be an option. If the landlord cannot amend the building protection or storage requirements of a tenant that has grown substantially they are faced with large premium increases.



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Scenario Two

A building that was built for one large tenant many years ago, was renovated to house multiple tenants. When the building was changed to multi-tenant use the walls that divided the tenant spaces were not built thick enough or high enough (parapet through the roof) to be considered separate fire divisions by the insurance company or current NFPA standards. There fore now you have one very large building with multiple tenants and the fire rating is calculated based on the value of the entire building. The larger the building and the greater number of tenants makes a fair distribution of insurance premiums much more difficult today than it was in the past. This even becomes more difficult if the largest tenant has the most issues with regards to property exposures (flammables, height of storage, chemicals, plastic totes etc. to name a few). This large tenant pays the most rent and now is the largest factor in the premium increase for a building that does not have the proper fire divisions and/or protection as required in the current insurance market.

These are just two samples of the scenarios that we see today that are making premium allocations much more difficult for landlords of heavy industrial properties with large buildings built many years ago for different occupants and exposures. You may be faced with one of these scenarios or something similar. There is no easy answer to the allocation issue and there are different solutions based on your individual situation. Please give Henderson Brothers a call so our real estate insurance experts can assist in making some sense out of the volatile insurance market that is facing many of our insured today. You did not cause this issue so give us a call to better understand how the insurance market has evolved to bring us to this market that is drastically increasing the insurance costs for the real estate industry.

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