



COMMERCIAL REAL ESTATE

Insurance law may help commercial sector, insiders say

BY MARILYN BOWDEN

While Florida's new insurance law was designed to provide relief for the housing market, it could have ancillary effects on commercial real estate.

The bill allows the state-run Citizens Property Insurance Corp. to offer below-market reinsurance to private companies.

"The net effect of what the Legislature has done should free up some capacity on the reinsurance side," said Ford Gibson of Gibson Development Partners, "and we may see that side of the business being a little more aggressive, enabling the commercial rates to come down."

"The state of Florida is taking on the role of a company like Berkshire Hathaway," said John Burford, senior vice president and investment-portfolio manager with The International Bank of Miami. "What this does is generally make home ownership more affordable. It has two bad economic effects: It encourages people to live in a high-risk area, and it distorts the insurance market. From a critical standpoint, offering really low reinsurance rates and counting on insurance companies to pass the savings through to consumers may be a stretch."

The reinsurance market is a national market that spreads the risk for an individual company, Mr. Burford said, but the state has localized it. "They are accepting another tremendous liability, and that means more taxes."

While commercial property owners are up in arms about insurance premium increases, he said, "they are able to get



Photo by Maxine Usdan

Ford Gibson of Gibson Development Partners says state's new insurance law could help reinsurance market open up, pushing rates down.

insurance still, so there hasn't been a major problem yet."

Commercial brokers count skyrocketing insurance among the industry's biggest problems.

"It's a huge issue," Mr. Gibson said. "Premiums are starting to come down a little, but they are still huge. And any way you slice it, the cost gets passed through to the consumer. It's certainly hurting the real estate industry in South Florida."

Tom Capocefalo, managing broker at Studley, said it's difficult to see that there will be meaningful cost savings on the commercial side. "Until the budget committee gets a handle on

to what degree this will affect commercial business," he said, "we are still going to be talking to clients about exceptionally expensive insurance premiums."

If they put together a commercial division within Citizens, then other companies might come in and compete. But before that, there's not a lot happening."

High insurance premiums are changing the profile of buyers in the South Florida market, said Jose Juncadella, principal of Fairchild Partners.

"Basically, institutional buyers have an advantage over smaller commercial buyers because they can reduce their costs, whereas local investors

or users pay much higher rates," he said. "This is affecting the whole industry. There has to be reform all around or it will be impossible to do business here."

"High taxes and high insurance rates are affecting the income stream and our ability to show a return," said Ken Lowy, vice president and South Florida director of Investment Real Estate Associates. "And that affects the velocity and pricing of sales transactions. Ultimately, owners can only pass through so much to a tenant."

"The situation is a major issue for buyers," said Brian S. Gale, managing director at Taylor & Mathis. "If you're going

to buy a single building on Brickell Avenue and you can't spread your insurance costs across a portfolio, you are going to have a premium as high as anybody in the country. That's why if you look at who the active buyers are today, they are all institutions and pension funds. Everybody else is at a competitive disadvantage in today's market."

Rep. Jack Seiler, a Pompano Beach Democrat, introduced a bill that would allow Florida to open the market to foreign reinsurers, Mr. Gibson said. "If that could get through, it could mean a really substantial drop in insurance costs."