The Coastline at Risk: 2013 Update to the Estimated Insured Value of U.S. Coastal Properties

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Contact Information

If you have any questions regarding this document, contact:

AIR Worldwide
131 Dartmouth Street
Boston, MA 02116-5134
USA
Tel: (617) 267-6645
Fax: (617) 267-8284

The Coastline at Risk

In the aftermath of Hurricane Katrina in 2005, AIR Worldwide released ***The Coastline at Risk: Estimated Insured Value of Coastal Properties***. The report stated:

"While the scientific debate over the effects of global warming on the frequency and severity of hurricanes remains inconclusive, there is no question that the significant increase in the number and value of exposed properties over the last decade has and will continue to contribute to increasing hurricane losses for insurers."

That report was updated in 2008; comparing its results to the 2005 report showed that the insured value of properties in coastal areas of the United States had grown at a compound annual rate of about 7%. This report represents a further update in 2013 and shows that, in the last five years, growth in insured values in coastal regions fell from 7% to just under 4% per annum.

What changed during this last five-year period is that the United States endured a severe economic recession, followed by an anemic recovery by historical standards. The recession particularly affected nationwide real estate values, which plummeted in some parts of the country. However, while market values plunged, replacement values did not. Thus an important distintion should be made between the market value of a property and its replacement value. It is the replacement value, or the cost to rebuild, that largely determines the insured values reported here.

What drove the lower growth rates in insured value during the recession was a marked slowdown in the number of housing starts. This lack of demand for new construction put a damper on labor and materials costs, which stagnated or rose only very slowly during this period.

Only now are construction and sales showing signs of real recovery. According to the Department of Commerce, construction of new U.S. homes in March 2013 hit the highest rate in almost five years. Notwithstanding the slowdown in 2008-2013, a steady increase in the number and value of exposed properties along the U.S. Gulf and East Coasts continues—and remains the largest factor increasingthe hurricane risk of property insurers today.

Based on AIR's estimates for the insured value of properties as of December 31, 2012, the data compiled for this update to *The Coastline at Risk* show:

- In the past five years, the insured value of properties in coastal areas of the United States increased at a compound annual growth rate of just under 4%. Indications are that, as the economy recovers, the rate of growth will pick up. At a historical rate of 7%, the total values insured would double every decade.
- In the past five years, the compound annual growth rate of the total value of properties in coastal counties was only marginally lower than the overall growth rate for the coastal states, at about 3.7%.
- Overall, 38% of the total exposure in Gulf and East Coast states is located in coastal counties; this exposure accounts for nearly 16% of the total value of properties in the U.S.

- The insured value of residential and commercial properties in coastal counties now exceeds $10 trillion. In coastal counties of each of Florida and New York, values approach $3 trillion.
- Although New York edges Florida as the state with the highest coastal property values, at over $2.9 trillion, Florida has the largest proportion of its value in coastal counties at 79%.

The following table shows AIR Worldwide's estimates for the insured value of residential and commercial properties in coastal states and, separately, in the coastal counties within those states, as of December 31, 2012.

Estimated 2012 Insured Value[1] of Coastal Properties by State ($B)

State	State Total ($B)	Coastal Counties[2] ($B)	Percent Coastal
Alabama	917.8	118.2	13%
Connecticut	879.1	567.8	65%
Delaware	208.9	81.9	39%
Florida	3,640.1	2,862.3	79%
Georgia	1,932.2	106.7	6%
Louisiana	823.0	293.5	36%
Maine	285.5	164.6	58%
Maryland	1,293.4	17.3	1%
Massachusetts	1,561.4	849.6	54%
Mississippi	468.5	60.6	13%
New Hampshire	278.7	64.0	23%
New Jersey	2,129.9	713.9	34%
New York	4,724.2	2,923.1	62%
North Carolina	1,795.1	163.5	9%
Rhode Island	207.5	58.3	28%
South Carolina	843.6	239.3	28%
Texas	4,580.7	1,175.3	26%
Virginia	1,761.7	182.3	10%
All States Above	**28,331.4**	**10,642.2**	**38%**
Total U.S.	**64,624.3**	**10,642.2**	**16%**

[1] *Total insured value of properties* is an estimate of the cost to replace structures and their contents, including additional living expenses and business interruption coverage, for all residential and commercial property in the state that is insured or can be insured.

[2] Coastal counties are defined as:
Alabama: Baldwin, Mobile. **Connecticut:** Fairfield, Middlesex, New Haven, New London. **Delaware:** Kent,

Sussex. **Florida:** Bay, Brevard, Broward, Charlotte, Citrus, Collier, Dixie, Duval, Escambia, Flagler, Franklin, Gulf, Hernando, Hillsborough, Indian River, Jefferson, Lee, Levy, Manatee, Martin, Miami-Dade, Monroe, Nassau, Okaloosa, Palm Beach, Pasco, Pinellas, St. Johns, St. Lucie, Santa Rosa, Sarasota, Taylor, Volusia, Wakulla, Walton. **Georgia:** Bryan, Camden, Chatham, Glynn, Liberty, Mcintosh. **Louisiana:** Cameron, Iberia, Jefferson, Lafourche, Orleans, Plaquemines, St. Bernard, St. Mary, St. Tammany, Terrebonne, Vermilion. **Maine:** Cumberland, Hancock, Knox, Lincoln, Sagadahoc, Waldo, Washington, York. **Maryland:** Worcester. **Massachusetts:** Barnstable, Bristol, Dukes, Essex, Nantucket, Norfolk, Plymouth, Suffolk. **Mississippi:** Hancock, Harrison, Jackson. **New Hampshire:** Rockingham. **New Jersey:** Atlantic, Cape May, Cumberland, Hudson, Middlesex, Monmouth, Ocean. **New York:** Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk. **North Carolina:** Beaufort, Brunswick, Camden, Carteret, Chowan, Currituck, Dare, Hyde, New Hanover, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Tyrrell, Washington. **Rhode Island:** Bristol, Newport, Washington. **South Carolina:** Beaufort, Charleston, Colleton, Georgetown, Horry, Jasper. **Texas:** Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Harris, Jackson, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio, Victoria, Willacy. **Virginia:** Accomack, Northampton, Hampton City, Norfolk City, Poquoson City, Portsmouth City, Virginia Beach City.

About AIR Worldwide

AIR Worldwide (AIR) is the scientific leader and most respected provider of risk modeling software and consulting services. AIR founded the catastrophe modeling industry in 1987 and today models the risk from natural catastrophes and terrorism in more than 90 countries. More than 400 insurance, reinsurance, financial, corporate, and government clients rely on AIR software and services for catastrophe risk management, insurance-linked securities, detailed site-specific wind and seismic engineering analyses, and agricultural risk management. AIR is a member of the Verisk Insurance Solutions group at Verisk Analytics (NASDAQ:VRSK) and is headquartered in Boston with additional offices in North America, Europe, and Asia. For more information, visit **www.air-worldwide.com**.