

**THE MANAGING AGENT'S INSURANCE DILEMMA**

by  
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A pivotal responsibility has become maintaining adequate insurance on a managed property. The dilemma is determining types and levels of coverage. Multi-peril/All-risk policies are straightforward when the focus is on replacement coverage and lost rent. However, the choices as to a quantity of liability insurance or what riders to choose adds complexity for a cost-benefit analysis is not necessarily straightforward.

For example, assuming a finite budget for fixed operating expenses, does one choose the earthquake rider over terrorism coverage? With liability insurance averaging \$1,000.00 per million, purchasing coverage for the "extreme" events could wipe out a property's net income. A discussion with lawyers, other property managing agents, and seasoned commercial property insurance brokers has resulted in the following common sense observations:

**LIABILITY INSURANCE:** While most sophisticated owners now hold property in an LLC or some corporate structure which avoids personal liability, covering the property just up to its market value could, nevertheless, be either prohibitively expensive or ultimately result, in the event of a judgment, in the loss of the property to cover any award amounts in excess of the policy. For owners with multiple properties, the economies of scale take over for commonly owned properties can be covered under a single policy having an annual aggregate exposure. While the risk would remain that an individual property could absorb the aggregate coverage in any single year, the total coverage available for each property is generally a multiple of what could be obtained on a stand alone basis.

While a review of typical compensatory damages relating to personal injury appears to have an average of under \$1,000,000.00, the records are rife with \$6,000,000.00 to \$10,000,000.00 awards. Therefore, a conservative formula for determining aggregate liability insurance levels would be, for a property owned in a corporate structure, no less than the current market value of the property with a minimum, including all underlying insurance coverages, of from \$5,000,000.00 to \$10,000,000.00. If the

property can be aggregated with others, to contribute that same premium cost for the joint coverage, thereby obtaining the benefits of a significant multiple.

If the property is owned individually, adequate coverage levels should not be the decision of the managing agent

**RIDERS:** Of those riders offered with a multi peril policy, the most common are: Earthquake, Flood, Terrorism, and Sewer Backup insurance. The most common occurrence, sewer backup, is generally always chosen, but is of limited utility due to generally a deductible of from \$25,000 and a limit of roughly \$100,000 per occurrence without incurring excess premiums. A Terrorism rider generally receives a reflexive acceptance; however, most riders only apply to Certified Acts of Terrorism, as attested to by the US Treasury, and only cover to domestic terrorism that does not have a radioactive component. Based on this definition, Flood insurance or even Earthquake insurance may provide a better value. By way of example, since 1737 there have been 15 earthquakes affecting the New York City area having a magnitude greater than 2.4 on the Richter scale. Typically, a 2.0 to 4.0 magnitude will be noticed but causes little damage. From 4.0 to 5.5, structural damage can occur such as cracked foundations and collapse of chimneys.

However, some perceive a heightened risk due to the recent acceleration in seismic events; with earthquakes occurring in the New York City area on January 17, 2001, October 17, 2001, and August 27, 2003. A little known fact: the more than 400 earthquakes which have occurred in New York State since 1730 having a magnitude greater than 2.0, make New York the third highest earthquake activity State east of the Mississippi River.

Geologists tell us that this level of activity should not be occurring in a region of the country that is far from plate margins. When the specialists can't determine the cause of such seismic activity, a managing agent is left on his own in trying to determine the risk of such a future occurrence and adequate funds to allocate for insuring against same.

With the combined uncertainties of potential jury awards, unpredictable climate and seismic occurrences, and the intrusion of world events, the ultimate answer as to how much, and what types of insurance to carry is...to purchase all that you can afford.

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**commercial property listings**

110TH AVENUE	8,000 SQ. FT.	BARNETT AVENUE	60,000 SQ. FT.
126TH STREET.	5,500 SQ. FT.	BARNETT AVENUE	3,324 SQ. FT.
132ND STREET	45,000 SQ. FT.	BARNWELL AVENUE	27,000 SQ. FT.
14TH STREET	16,500 SQ. FT.	BEDFORD AVENUE	15,000 SQ. FT.
170TH STREET	15,000 SQ. FT.	BORDEN AVENUE	30,000 SQ. FT.
19TH AVENUE	8,000 SQ. FT.	CANTON STREET	8,000 SQ. FT.
25TH STREET	6,000 SQ. FT.	CENTRAL AVENUE	10,000 SQ. FT.
28TH 29TH STREET	8,275 SQ. FT.	CHAMBERS STREET	6,250 SQ. FT.
29TH STREET	5,000 SQ. FT.	CHAMBERS STREET	7,000 SQ. FT.
31ST AVENUE	45,000 SQ. FT.	CLINTON STREET	110,000 SQ. FT.
35TH STREET	3,990 SQ. FT.	CODY AVENUE.	14,000 SQ. FT.
38TH STREET	6,200 SQ. FT.	DUNKIRK STREET	90,000 SQ. FT.
39TH STREET	20,000 SQ. FT.	FRANKLIN AVENUE.	5,000 SQ. FT.
39TH STREET	38,000 SQ. FT.	FREEMAN STREET	5,000 SQ. FT.
39TH STREET	12,500 SQ. FT.	GRAND AVENUE	156,000 SQ. FT.
43RD AVENUE	11,600 SQ. FT.	GREENPOINT AVENUE	77,000 SQ. FT.
47TH AVENUE	0,000 SQ. FT.	GREENPOINT AVENUE	102,120 SQ. FT.
47TH AVENUE	40,000 SQ. FT.	HART STREET	60,000 SQ. FT.
47TH ROAD	6,200 SQ. FT.	HUNTERS POINT	7,000 SQ. FT.
47TH STREET	4,000 SQ. FT.	INGRAHAM STREET	7,000 SQ. FT.
48TH AVENUE	27,000 SQ. FT.	SKILLMAN AVENUE	75,000 SQ. FT.
49TH AVENUE	25,000 SQ. FT.	STEINWAY STREET	10,000 SQ. FT.
49TH STREET	72,000 SQ. FT.	STEINWAY STREET	7,260 SQ. FT.
49TH STREET	88,000 SQ. FT.	THOMSON AVENUE	4,900 SQ. FT.
54TH AVENUE	200,000 SQ. FT.	THOMSON AVENUE	37,655 SQ. FT.
74TH STREET.	10,000 SQ. FT.	THOMSON AVENUE	120,000 SQ. FT.
98TH AVENUE	3,500 SQ. FT.	VAN DAM STREET	28,000 SQ. FT.
ALBION AVENUE	105,000 SQ. FT.	VERNON BLVD.	70,000 SQ. FT.
ASTORIA BLVD	32,000 SQ. FT.	WOODSIDE AVENUE	75,000 SQ. FT.
AVENUE D	44,000 SQ. FT.	WYCKOFF AVENUE	123,000 SQ. FT.

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