

THE BINSWANGER BRIEF

Why Underwriters Are Deciding Where Industrial Facilities Get Built

Insurance Has Moved from the Closing Checklist to the Credit Committee. Here Is What That Means for Site Selection.

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A corporate real estate director recently told me something that would have sounded strange five years ago. She said that her company's insurance broker now has a seat at the site selection table, right next to the power utility contact and the labor economist. Not at the end of the process when coverage needs to be bound. At the beginning, when the long list of candidate sites is being built.

She did not volunteer for this change. Her lender required it.

That story captures a shift that is rewriting the math of industrial site selection in ways many occupiers and investors have not fully absorbed. Property insurance, once a predictable operating expense that appeared late in a transaction, has become a parcel-level input in the deal itself. Climate exposure, groundwater history, catastrophe modeling, and environmental liability coverage are now influencing loan covenants, acquisition pricing, and pro formas before the first site visit happens. And the companies that are still saving the insurance conversation for the end of diligence are discovering, sometimes painfully, that the economics of their chosen site shift materially once the carrier weighs in.

THE NATIONAL AVERAGE IS MISLEADING

On the surface, the commercial property insurance market looks like it is cooling off. U.S. commercial property insurance rate growth slowed from 5.6 percent in the fourth quarter of 2024 to 2.9 percent by the fourth quarter of 2025, according to Stephen Pantano, senior vice president of market transformation at the Urban Land Institute, as reported by Commercial Property Executive. After years of aggressive premium increases that saw some owners' insurance costs double between 2021 and 2024, a headline number under three percent feels like relief.

But national averages are misleading, particularly for industrial occupiers and investors evaluating specific sites. The moderation in rate growth is concentrated in non-catastrophe-exposed markets and among large portfolio owners who can spread risk across geographically diverse holdings. For individual parcels in flood-prone, hurricane-exposed, or wildfire-adjacent submarkets, the picture can look very different. Two comparable industrial sites with matched power capacity, workforce access, and highway proximity can carry insurance costs that diverge sharply once a carrier runs the catastrophe model on each address.

And it is not just property coverage. Environmental liability insurance is tightening in ways that compound the effect. In February 2026, Environment+Energy Leader reported that insurers are scrutinizing groundwater monitoring, historical contamination exposure, and emerging chemical risks more aggressively, with coverage exclusions and sublimits appearing more frequently in sectors that were previously considered stable. PFAS-related liabilities, in particular, are reshaping the environmental coverage landscape. The 3M settlement addressing public water system contamination claims, reported at up to $12.5 billion in nominal value, has recalibrated what environmental liability can mean for any site with a legacy industrial footprint.

Commerical Property Insurance Rate Growth

5.6%
Q4 2024

↓

2.9%
Q4 2025

Owners' insurance costs double between 2021 and 2024, a headline number under three percent feels like relief.

WHEN INSURANCE BECOMES A CREDIT ISSUE

The most consequential change is not the price of coverage itself. It is the way lenders are treating insurance in the underwriting process.

Commercial property insurance has traditionally been a closing requirement, one of the items on the checklist that needs to be in place before funding. That is no longer where it sits in the deal timeline. Lenders are now requesting bindable insurance quotes earlier in diligence, particularly for assets in coastal and secondary markets. Some require proof of coverage terms before final credit committee approval. As James Stuart, corporate chief sales officer at Hub International's real estate specialty practice, told Commercial Property Executive: lenders are asking for carrier financial-strength minimums of A- or better, requesting insurance-to-value studies, and in some cases requiring 100 percent excess coverage as a loan condition.

The timing makes this especially urgent. The Mortgage Bankers Association reports that $875 billion in commercial mortgages are scheduled to mature in 2026, representing 17 percent of all outstanding commercial mortgage debt. Among industrial properties, 23 percent of loan balances come due this year. Every refinancing reopens the insurance review, and many borrowers who have not faced a full review in eight or ten years are walking into a market that looks nothing like the one they left.

The result is that insurance can shift from an operating expense to a credit issue. Rising premiums may be the most visible cost, but reduced limits, higher deductibles, carrier-rating concerns, and coverage gaps can also affect refinancing assumptions, reserves, and loan compliance. If insurance-to-value falls below actual replacement cost, or the structure of coverage raises concerns, a transaction can be delayed, repriced, or fail to close entirely.

THE INSURABILITY SCREEN: A FRAMEWORK FOR SITE SELECTION

For corporate real estate leaders, finance teams, and their advisors, the practical question is straightforward:

HOW DO YOU BUILD INSURABILITY INTO THE SITE SELECTION PROCESS EARLY ENOUGH TO MATTER?

At Binswanger, where we have spent 95 years advising companies on industrial, manufacturing, and complex facility decisions, we are seeing a growing number of clients adopt what we call an insurability screen as a standard part of their site evaluation. The screen runs parallel to the traditional analysis of power, land, labor, logistics, and incentives, and it covers four areas.

The first area is parcel-level climate and catastrophe exposure. This means pulling flood zone designation from FEMA mapping and supplementing it with third-party catastrophe model outputs that account for wildfire, wind, convective storm, and seismic risk at the specific address, not the metro level. FEMA flood maps are a starting point, but they are backward-looking and do not capture emerging risks. Carriers and reinsurers use proprietary catastrophe models that incorporate forward-looking climate data, and a site's position in those models determines what coverage will be available and at what price.

The second area is environmental liability history. This means reviewing state environmental databases, EPA records, and historical aerial imagery for evidence of prior industrial use, underground storage tanks, contamination remediation, or proximity to PFAS-related activity. Environmental coverage is becoming harder to obtain for sites with legacy contamination, and the cost of coverage, when available, can materially affect operating economics.

The third area is preliminary insurance market engagement. Before signing a letter of intent, a company should work with a broker to obtain indicative quotes for property, flood, environmental, and business interruption coverage at each finalist site. These are not binding quotes, but they reveal how carriers view the parcel and whether coverage will be available on acceptable terms. A site that looks competitive on land cost and labor availability may be significantly less attractive once the insurance cost is layered in.

The fourth area is pro forma integration. Insurance costs, including projected premium trajectories, deductible structures, and potential coverage exclusions, should be modeled into the pro forma alongside rent, taxes, and utilities from the earliest stages of financial analysis. Lenders will eventually require this anyway. Companies that do it voluntarily, and early, avoid the scenario where a deal reprices late in diligence because the insurance numbers came in above assumptions.

HOW CATASTROPHE MODELING SHIFTS ACQUISITION PRICING



To understand how this plays out in practice, consider the role catastrophe modeling now plays in acquisition pricing.

A decade ago, a buyer evaluating an industrial property in a Gulf Coast market might have budgeted for flood insurance based on the FEMA flood zone and historical premium data. Today, a sophisticated buyer or lender will run the property through a catastrophe model that accounts for storm surge probability, wind exposure, rainfall intensity, and building-specific vulnerability factors. The output is not a single premium estimate. It is a distribution of potential losses that informs both the insurance cost and the lender's assessment of collateral risk.

When that modeled risk is high, the effects cascade through the deal. The lender may require higher coverage limits, pushing up the annual insurance cost. The lender may impose a higher debt-service coverage ratio to account for the additional operating expense. The buyer may apply a higher cap rate to reflect the risk, reducing the price they are willing to pay. And the seller, who may have operated the property for years without these considerations affecting value, is forced to accept a lower exit price.

The same dynamic plays out in reverse for properties in low-exposure locations. An industrial site in an inland market with minimal flood risk, no wildfire exposure, and no legacy contamination may qualify for insurance at rates that are meaningfully lower than otherwise comparable sites in catastrophe-exposed submarkets. That cost advantage compounds over a long hold period and can be the difference between a pro forma that works and one that does not.

THE ENVIRONMENTAL VARIABLE



Climate risk is only one dimension of the insurability equation. Environmental liability history is the other, and it is evolving in parallel.

Sites with historical industrial use increasingly face scrutiny from environmental liability carriers. Groundwater monitoring requirements, legacy contamination exposure, and the expanding scope of PFAS-related claims have made environmental coverage both more important and harder to obtain on favorable terms. States differ widely in how they manage industrial environmental permitting, which adds another layer of complexity to cross-state site comparisons.

For manufacturers considering reshoring or nearshoring production, this matters especially. A company evaluating an existing industrial building for a production line conversion needs to understand not just the building's physical specifications, but its environmental history and the availability of environmental liability coverage at that address. A building with adequate square footage and power capacity can still fail an occupier's requirements if it carries environmental exposure that makes coverage prohibitively expensive or unavailable.

WHAT OCCUPIERS & INVESTORS SHOULD DO NOW

The companies navigating this shift successfully share a common approach: they are treating insurability as a front-end criterion rather than a back-end confirmation. That means bringing the insurance broker into the site selection process at the same stage as the power utility and the economic development contact, not after a letter of intent has been signed.

It also means investing in better data. Parcel-level climate exposure, catastrophe model outputs, environmental database reviews, and preliminary carrier engagement all cost time and, in some cases, money. But the cost of discovering an insurance problem after committing to a site is almost always greater.

For investors, the framework applies to both acquisition and disposition. Properties in low-exposure locations with clean environmental histories may carry a natural advantage that is not yet fully reflected in market pricing. Properties in high-exposure locations may be viable investments, but only if the insurance cost is accurately modeled from the start.

And for lenders, the trend is already clear. Insurance is no longer a background assumption. It is a front-end consideration influencing pricing, capital allocation, and asset strategy.

A NOTE ON TIMING

The timing of this shift matters. The Mortgage Bankers Association reports that 23 percent of industrial property loan balances are scheduled to mature in 2026. That means nearly a quarter of the industrial lending market will face a refinancing event this year in which the lender reopens the insurance review. Borrowers who last negotiated coverage in 2018 or 2019 may find that their current market looks nothing like the one they remember. Premiums may have risen, deductibles may have increased, carriers may have exited certain markets, and lender requirements may have tightened in ways that affect loan sizing and debt-service coverage ratios.

For occupiers negotiating new leases, the dynamic is similar. A triple-net lease that passes insurance costs through to the tenant means that the tenant bears the exposure to premium volatility. Understanding the insurance profile of a building before signing a lease is no longer a nice-to-have. It is a financial planning requirement.

And for developers evaluating ground-up construction, the insurance market should inform site selection before the land purchase closes. A site that pencils on land cost, construction cost, and projected rent may not pencil once the insurance cost is layered in, particularly if the site is in a catastrophe-exposed submarket where premiums carry a significant premium over the regional average. Building to higher resilience standards can mitigate some of this cost, but the most effective mitigation is choosing a site where the exposure is lower to begin with.

The timing of this shift matters

23%
Industrial Property Loan Balances
Mature in 2026

THE BOTTOM LINE

- For most of the modern history of industrial site selection, insurance was a known cost that was dealt with at the end of the process.
- The power grid, the labor market, the highway interchange, and the rail spur came first. The insurance policy came last.

THAT SEQUENCE NO LONGER HOLDS. In a market where catastrophe models, environmental liability history, and lender requirements are reshaping the economics of individual parcels, insurability has earned a place alongside power, land, and labor as a fundamental site selection criterion. The companies that build this into their process now will make better site decisions. The ones that wait will learn the same lesson the hard way, typically at the worst possible moment: when the deal is already underway, and the numbers no longer work.



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Chad Ackerley brings over 14 years of commercial real estate experience specializing in industrial properties, land sales, and investment acquisitions. Previously Vice President of Sales & Leasing at Commercial Properties, he served tenants, users, and investors across Arizona. His expertise includes tenant relocation, lease negotiations, build-to-suits, and land acquisition. With a background in electrical contracting and residential development, Chad also led major projects across multiple states, including the sale of $800 million in condominiums at Las Vegas's Hard Rock Hotel.