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L.A. has big plans to rebuild after the fires. Good luck getting insurance

By Kevin T. Dugan WSJ March 11, 2025 9:00 pm ET

In her pop-art decorated office in the heart of Beverly Hills, real-estate broker Rochelle Maize got an early look at who would control the future of Pacific Palisades.

It was eight days after the wildfires broke out—before Los Angeles Mayor Karen Bass had appointed a recovery czar, before rebuilding plans had been drawn. Fires still burned, and the air was putrid with the ashes of thousands of torched homes. Even then, the power of California's insurance companies was becoming evident to Maize.

Her clients buy and sell mansions in crown-jewel neighborhoods where listings bottom out around the single-digit millions. Many pay in cash. But after the Palisades fire, deals in the area kept falling through. One client wanted to go ahead with a seven-figure purchase, risk be damned, even if he had to be self-insured—meaning he would proceed without a policy.

It's in a great area, Maize recalled the client saying. *I'm just willing to take the risk*. She thought that was crazy.

The question for Los Angeles isn't so much how to rebuild the Palisades, a coastal community that is home to some 21,000 people, but who pays if it burns again.

"Writing new policies doesn't make any sense at this time," State Farm General, California's largest property insurer, wrote Tuesday to the state insurance commissioner. To shore up its finances, the company is seeking permission for a 22% rate increase for 1.2 million homeowners.

The state's fire-recovery dilemma was aired at a recent meeting on the third floor of an office building in Oakland, Calif. Insurance commissioner Ricardo Lara convened executives from State Farm and Consumer Watchdog, a nonprofit advocacy group. By then, the scale of damage from the January wildfires was more clear, around \$250 billion.

Lara began the meeting by lamenting a state law dating back to former President Ronald Reagan's second term, known as Proposition 103. It was intended to make insurance more affordable by limiting rate increases. Disastrous wildfires, floods and earthquakes followed in the decades since. The law allows insurance premiums to go up no more than 6.9% for homeowners without a public hearing.

"I face the task of regulating an insurance market operating under outdated regulations that have not been significantly reformed since the passage of Prop 103 in 1988," Lara said at the meeting. "This outdated regulatory structure has hindered insurers from actively reflecting the true cost of doing business in California."

For most homeowners, insurance is the price one pays to not worry about the worst. But California's consumer protections exposed a stark problem. Proposition 103 effectively offset the true cost of living in some of the state's most exclusive, high-risk neighborhoods.

"If the insurance commission prohibits insurers from charging a certain amount of money, insurance companies will say no, and then you're left with people who self-insure," said Richard Green, the chair of the University of Southern California's Lusk Center for Real Estate.

The L.A. recovery plans under way are supposed to help mitigate insurers' concerns, such as requiring fire-resistant building materials and restricting homeowners from planting more flammable shrubs. The proposals have set off political squabbles over residential density and affordability, disagreements complicated by California's housing shortage.

Yet the city's rebuilding plans might not matter much, at least until the state and its insurers decide if risky stretches of California's most desirable real estate are safe enough for human habitation.

This account is based on public documents and interviews with real-estate brokers, academics, city officials, property-development executives, attorneys and displaced residents.

"It's not just about the Palisades," said Stuart Gabriel, a professor of finance and real estate at UCLA Anderson School of Management.

"It's clearly about risks that extend well beyond specific fire zones," Gabriel said. "It's also about the very basis of insurance, which is spreading the cost of risk. And so it has implications for every single homeowner in California."

High-end, high risk

The January wildfires included the Eaton fire, a blaze that destroyed more than 6,500 homes in Altadena, Calif., about a 35-mile drive east of the Palisades. Los Angeles County, which governs the unincorporated inland community, is taking the lead on writing a recovery plan there. Like the Palisades' effort, it is a massive undertaking.

Altogether, more than 50,000 acres, about the size of Brooklyn, burned and 28 people died in the L.A.-area wildfires. For a time, the air carried asbestos and other toxic particulates.

Insurance payouts are expected to swell past \$40 billion.

Pacific Palisades was the epicenter of the burn in the Los Angeles area, where more than 16,000 structures were destroyed, according to Cal Fire. It also is one of the most troublesome places to rebuild.

"You're dealing with homes that could go up to \$30 million," said Emile Haddad, founder of FivePoint Holdings, a California developer. "People have a different view of how things should be done."

The price tags matter. California's FAIR plan, the state's insurer of last resort, covers up to \$3 million of a home's value. After that, private insurance either covers it or the homeowner eats the loss. Maize's client got a plan that would cover \$2.25 million in rebuilding costs, less than half of the homes' value. The client plans to seek additional coverage next year, according to a person familiar with the policy.

Plans to rebuild the Palisades have so far danced around the role of insurers. Even the FAIR plan's fortunes are tied to private insurers, which by law must replenish the fund and can pass on some of the costs to California policyholders.

On Jan. 17, the mayor appointed Steve Soboroff, a real-estate developer and former police commissioner, Chief Recovery Officer. The job includes coordinating with federal officials,

contractors and smoothing bureaucratic hurdles. It also made him the public punching bag for angry Palisades residents.

After Soboroff's \$500,000 compensation package for the three-month gig came to light, Bass shrank Soboroff's role, and he agreed to work for free. He is now unlikely to remain on the job past April, according to a person briefed on his plans.

Soboroff's role was challenged by Rick Caruso, billionaire developer who built a luxury mall in the Palisades that was saved by a private firefighting force. Caruso has started his own nonprofit group to rebuild the Palisades as close to how it looked before it burned down. He has been joined by executives from JPMorgan Chase and Palantir.

Caruso has spoken on Joe Rogan's podcast and other outlets to disparage plans to build affordable housing in the Palisades, though the city has made no official plans to do so. There is talk Caruso plans to run again for mayor after losing to Bass in the 2022 election.

Cindy Ambeuhl, a luxury real-estate broker for Christie's, supports Caruso's plans and hopes to rebuild her own house. She recalled how the local schools, cafes, Fourth of July parades and bake sales gave the Palisades its air of neighborly, ocean-breeze Americana.

"We want what we lost," she said.

Prefab paradise

On Jan. 24, at a conference room at the University of California Los Angeles' Anderson Center in Brentwood, the terms of a rebuilding plan were getting hashed out, according to people who were there.

Among the 40 or so officials and executives were representatives from Brookfield, the \$1 trillion asset manager; Gensler, the world's largest architecture firm; and KB Home, the home-building company, the people said.

The current version of the plan to rebuild the Palisades, which hasn't been publicly released, would create a public-private partnership between the city and developers and contractors, the people said.

These companies would design and build prefabricated homes—from starter homes to ultraluxury—that would keep costs around or below \$500 a square foot—less than half of typical building costs for the neighborhood. An official said that early discussions included capping builders' profit margins at about 15%.

An infrastructure plan, funded by a municipal bond backed by property tax increases, would bury power lines and replace sewers that melted from the 1,700 degree Fahrenheit fires, people familiar with the plans said.

Some proposals would alter the Palisades' character, a more elusive factor. New homes might use concrete in place of wood. Homeowners could be discouraged from planting eucalyptus trees or mesquite, which burn easily when dry. Planners also need to figure out how to speed exits for residents during emergencies.

Note
The aim of the safety requirements is, to a large degree, about making homes insurable, according to officials, academics and executives. Insurers might still see the Palisades as still too hazardous.

"It would be egregious and massively disappointing if somehow we built the same high-risk stuff in the same way, in the same places, and that we didn't take this opportunity to digest and implement all the lessons of this catastrophic event," said Gabriel, who also is working on the plan.

Exposed

Lara, the state insurance commissioner, sat at an elevated dais facing three tables at the Feb. 26 meeting in Oakland. At one table were executives from State Farm. At another, were representatives of Consumer Watchdog.


The fire would cost State Farm \$7.9 billion, according to the insurer's estimates. Although it had enough capital to pay for its policies from the fires, the outlook was looking worse. Inflation was straining its balance sheets, and natural disasters were becoming more frequent and severe. At least one ratings agency, Standard & Poor's, had warned of a downgrade, which could lead mortgage lenders to not accept the insurer's guarantees as collateral for home buyers. Last June, State Farm asked for a 30% policy increase for homeowners. But the request never got a public hearing, a requirement of Prop. 103. In the February meeting, the insurer requested a 22% premium hike.

"Bottom line, it's time," State Farm CFO Mark Schwamberger, said. "We simply can't handle this much exposure."

Lara, a former state lawmaker who was elected commissioner in 2018, didn't make a decision but said he would consider the request. A staff attorney said at the meeting that the state wasn't convinced that State Farm had proven it was entitled to the 30% increase requested last June but might qualify for a 22% rate increase.

The California Dept. of Insurance didn't respond to requests for comment. William Pletcher, the litigation director for Consumer Watchdog, said later that State Farm didn't meet documentation requirements for a rate increase.

Lara also shouldered some responsibility for the problem, he said, by not taking up the company's earlier rate requests. "This is a guy who's been insurance commissioner for a while now," Pletcher said. "He's describing a situation that he has had a major role in for a long time."

Arika-Paloma Urquidez, a Palisades-based architect, said her clients who are planning to rebuild are less preoccupied with the look of their house. "Their biggest concern is, 'It has to be insured,'" she said. 

Urquidez and her brother, a general contractor, grew up in the neighborhood. When the fires broke out, they were working on a house in the Palisades. Their mother texted she was evacuating. The siblings believed her house was far enough away from the fire to be safe.

That night, they were relieved to see on the local TV news that the Gelson's supermarket near their mother's house was untouched. Then the wind changed direction, Urquidez said. The next day, a friend in the police department sent her photos showing the house had burned.

Since then, the siblings have been trying to persuade residents to stay and rebuild.

The financial burden of making mortgage payments on a destroyed house during an expected yearslong wait for construction will likely prove too much for many residents. One official involved in the recovery estimated that three of four Palisades residents won't move back.



On a bright morning in January, Urquidez and her brother stopped at a National Guard checkpoint and got out of the SUV. "I had my first kiss on that point right there," she said, and gestured toward the bluff where her mother's house stood before it turned to ash.

"I always thought that I would raise my children here," she said. "I don't see it ever being the same."

