IN THE MARKETS

Lemonade searches for insurance market sweet spot

The company tries to set itself apart as a purpose-driven organization

Because I can't think of anything people love less than paying premiums or filing claims, I admire the folks at Lemonade, a SoHo-based startup whose goal is to create "the world's most loved insurance company." If Wall Street can sell the stock at a lofty price, investors have lost their minds. Then again, we all know love can do funny things.

AARON ELSTEIN

Lemonade's plans for an initial public offering, spelled out in an S-1 form filed last Monday, hark back to a kinder, gentler era when there was great excitement for IPOs in companies known as unicorns. Like others in the species, Lemonade grew fast last year, with revenue tripling, to $67 million, while net losses more than doubled, to $109 million. The company's investors include SoftBank, backer of Uber, WeWork and other fallen stars.

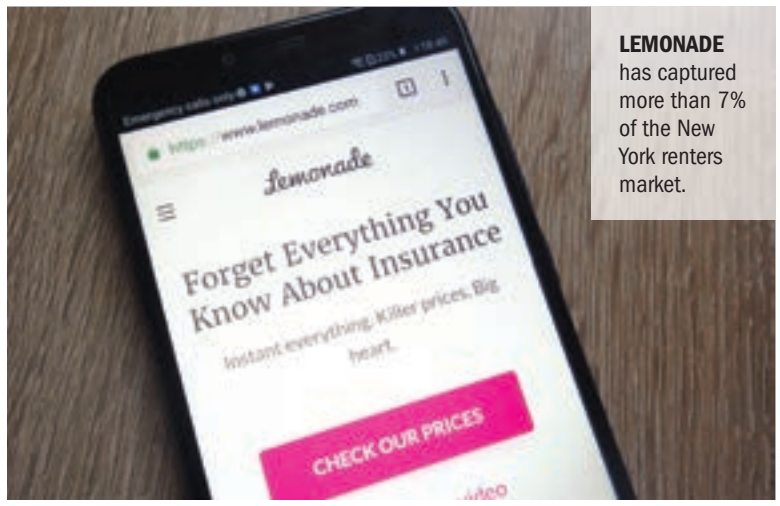
THE WORLD OF **INSURANCE** HAS BEEN ONE OF THE **HARDEST TO DISRUPT**

"The S-1 feels a lot like Uber's," said Nick Colas, co-founder of DataTrek Research. His observations are worth heeding because ahead of the e-hailing app's much-hyped IPO last year, he gracefully laid out how—contrary to the story told by well-wishers—Uber was no Amazon.

Still, in a little more than three years, Lemonade says, it has captured 7% of the New York renters insurance market, and 70% of its customers are younger than 35—giving it a client base it can serve for years.

Like other unicorns, Lemonade tries to set itself apart by marketing the company as a purpose-driven organization. Specifically, it says that every year it will donate "excess premiums" to nonprofits such as Teach for America and UNICEF. The company said it believes doing good will help it do well by lowering its cost of claims.

"We believe customers are less inclined to embellish claims, as they would be hurting a nonprofit they care about rather than an insurance company they do not," Lemonade said.



LEMONADE has captured more than 7% of the New York renters market.

ALAMY

It's worth a try. The world of insurance has been one of the hardest to disrupt, even though most insurers aren't exactly dynamic companies and there's a tremendous pile of money to attract upstarts, with $1.2 trillion in net premiums written in 2018, according to S&P Global. One of the most successful startups, Manhattan-based small-business insurer CoverWallet, was acquired in January by Aon, a huge insurance broker.

Heavily regulated

Insurance is a tough nut for startups to crack because it's heavily regulated, with each state imposing different requirements.

Generally speaking, the term "fintech" describes startups with businesses designed to sidestep most or all of the regulations governing banks and other financial institutions.

Insurance startups also struggle because the business is particularly difficult when interest rates are really low. Warren Buffett's companies and a handful of other players can charge enough in premiums to cover costs—what the industry calls an underwriting profit—but many others price policies low and hope to make the money needed to pay claims by investing wisely in the markets. That's an especially difficult balancing act when U.S. government bonds return close to zero.

Unlike other "insuretechs" that specialize in marketing policies written by others, Lemonade plans to write its own and sell them to reinsurers to minimize its exposure to big claims. It's also betting superior technology will help it operate more efficiently and attract customers more cheaply than the incumbents.

Even so, DataTrek says there's no clear break-even point for Lemonade's business model. On the other hand, its prospects for growing into a sustainable enterprise look better than Uber's.

"At least you don't need self-driving cars to make money selling insurance," Colas said. ■

ON NEW YORK

New offices outside Manhattan depend on millennial lifestyle after Covid-19

Developers are building projects closer to where workers live

Later this year a new 500,000-square-foot office building will open in Downtown Brooklyn with the latest technology, including fingerprint scanning, options for individual air-conditioning units for tenants, high ceilings, no columns and no elevator buttons. One Willoughby Square, said developer Morris Jerome, is the perfect building for the post-pandemic world in the perfect place.

GREG DAVID

Meanwhile in Queens, a consortium of four developers working on a proposal for a Long Island City waterfront property once planned for Amazon's second headquarters has revamped its plan to increase the amount of office space to 5 million or 6 million square feet in the belief that the new normal will compel companies to locate closer to where their employees live.

THE BROOKLYN **NAVY YARD** AND **INDUSTRY CITY** HAVE MADE THEMSELVES **DESTINATIONS**

"Companies need talent and need to be where the talent is," said MaryAnne Gilmartin, who spent years working on the development of Brooklyn and is now part of the Queens consortium. "That talent is predominately in the boroughs and especially Brooklyn and Queens."

Developers, brokers and business leaders say the pandemic has made the case for relocating employees to Brooklyn and Queens stronger than ever. The long-term trend of some companies—especially so-called innovation economy companies—moving to those two boroughs to tap the talented young professionals who live there has now become the best way for the city to develop additional business districts that can shorten commutes and allow many employees to walk or bike. Of course, the space is much cheaper than in Manhattan, and the renewal of the Relocation and Assistance Program incentive in the budget passed in the spring cuts rents by an additional $10 to $15 a square foot.

They don't have any leases yet to prove their point. More important, their plans depend on two crucial assumptions. One is that working from home will not reduce the demand for office space so much that no new space is needed. The other is that the millennials and young families who have transformed Brooklyn and Queens remain committed to the city, and the pandemic and economic shutdown haven't made the group more interested in moving to the suburbs or beyond.

Brooklyn, in particular, had already established itself as a home to technology and media companies, with both online craft seller Etsy and Vice Media headquartered there. The Brooklyn Navy Yard and Industry City have made themselves destinations for a combination of innovative manufacturing companies, design firms, film studios and sports teams, including the NBA's Brooklyn Nets.

"Companies were discovering the waterfront, with affordable places, more green space and shorter commutes, before the pandemic," said Andrew Kimball, chief executive of Industry City. "That is our leasing model." Industry City says it is close to signing a lease with a firm that had planned to move to the Hudson Square neighborhood before employees balked at returning to Manhattan.

Cost remains a key to luring companies. Asking rents in Industry City are bracketed around $30 a square foot, with Downtown Brooklyn and Long Island City at about $50. The renewal of the REAP tax credit in the state budget provides an annual tax break of up to $3,000 per employee for 12 years, reducing the effective rate by anywhere from $10 to $15 a square foot. The average asking rent in virtually all of Manhattan in the first quarter was $75 a square foot, with tax incentives limited mostly to downtown and Hudson Yards.

Crowded commutes

The pandemic has made this proposition more compelling, both because people are wary of crowded commutes into Manhattan and because the city's stated commitment in both the Bloomberg and de Blasio administrations to a five-borough economy has become even more of a necessity.

For example, the key selling point of Downtown Brooklyn is that so many people can walk to their job, said Brooklyn Partnership President Regina Myer. When businesses start to look for space in Long Island City, added LIC Partnership President Elizabeth Lusskin, they discover many of their employees already live there. The outer boroughs can be the city's best defense against a flight to the suburbs, Lusskin added.

Landlords and developers have instituted a variety of strategies to pursue office tenants for Brooklyn and Queens.

Industry City says it is open to leases of any length as companies want to make only short-term decisions while the long-term consequences of the pandemic are sorted out. "Tenants are asking, 'Can we move somewhere for a year or two?'" said leasing director Kathe Chase, who allows companies to take more space or less as needed.

However, if the work-from-home experience of the pandemic proves to be long-lasting and companies like Facebook remain convinced that eventually half the workforce will be doing that, there simply may be no need for additional office space.

If the millennials and young families who have flocked to Brooklyn and Queens decide the city is no longer for them, the argument for being located where the talent is evaporates. ■