September 6, 2023

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of the nearly 100,000 combined members of the National Multifamily Housing Council (NMHC)[1] and the National Apartment Association (NAA)[2], we are writing in advance of the hearing titled "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers" to share the views of the multifamily housing industry. In recent times, volatility in the insurance market has led to soaring costs, reduced coverage, and unmitigated risks, all of which poses a significant financial and operational challenge to apartment firms of all sizes and types and ultimately worsens housing affordability.

Like the broader real estate community NMHC and NAA understand that the future stability of the property insurance market and its ability to withstand the continued occurrence of catastrophic events must remain a top concern of our sector. Owners, operators and developers of rental housing have been hit hard by dramatically rising insurance costs in recent years. Coverage limitations, deductible increases and the absence of an affordable or viable private insurance market altogether have increased the financial risk borne by housing providers and strained property operations which has impacted rents charged to residents. These challenges have coincided with an increasingly difficult multifamily risk landscape overall. The ability of multifamily firms to attract investments required to meet the nation's housing needs and help address its housing affordability crisis is put at risk by out-of-control insurance costs.

This lack of affordability of insurance options for property owners, has in many cases limited the ability of property owners to make needed investments in their properties. These increased insurance costs are also causing developers to delay or cancel projects which will, undoubtably have a long-term effect on housing supply and affordability for years to come.

A May 2021 survey and report sponsored by NMHC, NAA, the National Leased Housing Association (NLHA) and other affordable housing organizations found that these conditions have led to negative impacts on both housing providers and renters, with most housing

[1] Based in Washington, D.C., NMHC is a national nonprofit association that represents the leadership of the apartment industry. Our members engage in all aspects of the apartment industry, including ownership, development, management and finance, who help create thriving communities by providing apartment homes for 40 million Americans, contributing $3.4 trillion annually to the economy. NMHC advocates on behalf of rental housing, conducts apartment-related research, encourages the exchange of strategic business information and promotes the desirability of apartment living.

[2] The NAA serves as the leading voice and preeminent resource through advocacy, education, and collaboration on behalf of the rental housing industry. As a federation of 141 state and local affiliates, NAA encompasses over 93,000 members representing more than 11 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity and innovation.

providers indicating that they would take action to mitigate cost increases due to higher insurance premiums by increasing insurance deductibles, decreasing operating expenses, and being forced to increase rent. These steps are being taken as a last resort when the multifamily housing industry is facing soaring operational costs across the board and at a time of great housing affordability challenges across the nation.

In June 2023, NMHC released the State of Multifamily Risk Survey and Report, which found that the situation has only worsened over the last few years, leading policyholders to raise deductibles, and insurers to limit coverage amounts and include new policy limitations In the past three years;

- 61 percent of the respondents had to increase their deductibles to maintain affordability.
- 57 percent of the respondents indicated that their insurance carriers included new policy limitations to reduce their exposure.
- 34 percent reported that their insurance carriers limited or reduced coverage amounts.

For property insurance, 2023 NMHC data shows a nationwide average 26% increase in premiums yet in some markets or at some properties—like many affordable housing communities—we have seen triple-digit increases. These challenges are not limited to just property—we have seen spiking insurance costs across all lines of coverage, including wildfire, earthquake, cyber and liability.

Insurance Costs and Impact on Housing Affordability and Supply

Today, in more and more communities, hard-working Americans are unable to rent or buy homes due to increased housing costs. These rising costs are driven by a lack of supply created by barriers to development that increasingly make it extremely challenging, if not impossible, to build housing at almost any price point—particularly a price affordable to low- and middle-class families. The total share of cost-burdened households (those paying more than 30 percent of their income on housing) increased steadily from 28.0 percent in 1985 to 36.9 percent in 2021, while other households have been priced out of communities altogether in their search for affordable housing[1].

And while policymakers, at all levels of government, must do more to remove barriers to housing production, they must also understand how operational costs—outside of the control of property owners—is exacerbating the situation and directly impacting the cost of housing. Rental housing firms continue to face a challenging market caused by lingering effects of the pandemic, rising interest rates, increased costs of development, such as construction and labor costs, significant increases in insurance, state and local property taxes and a lack of certainty about broader economic conditions over the coming months have made the current operating environment extremely challenging.

Again, with little-to-no budgetary flexibility, housing providers are often forced to rethink or defer necessary maintenance, cut amenities or other resident services or take other unwanted measures to be able to maintain required insurance coverages, which are dictated by agency or lender requirements.

Today's current challenges will have a lasting impact on our ability to address housing affordability and meet rental housing demand in the long-term. Year-after-year of increasing insurance costs, coupled with other economic uncertainty, is impacting property valuations, disrupting transactions, and putting substantial pressure on the operating budgets of rental housing properties, often resulting in growing areas of uninsured risk. While not new, the challenges in the insurance marketplace have only made the situation more dire at a time when NMHC and NAA members are reporting that current economic and regulatory challenges are causing them to cut back significantly on development activities, in some cases, by as much as 50 percent. This slowdown has long-term implications. NMHC's July 2023 Quarterly Survey of Apartment Market Conditions also indicates the following troubling statistics:

- Over a third of respondents (35%) reported lower sales volume from three months prior.

- 57% of respondents reported equity financing to be less available than three months ago, marking the sixth straight quarter of less availability; and

- 67% said it was a worse time for mortgage borrowing compared to three months earlier, the eighth consecutive quarter in which debt financing became less available.

Potential Federal Policy Solutions

It is increasingly clear that given the lack of private sector capacity and ability to mitigate these risks and the resulting market failure, policymakers must look for ways to incentivize a more robust insurance and reinsurance market for multifamily housing so that affordable, attainable and quality lines of coverage are available to meet property needs and mitigate risk.

In the near-term, there are several administrative or regulatory actions that are being discussed among stakeholders and policymakers that could provide some relief include, but are not limited to, encouraging HUD to update its Operating Cost Adjustment Factor (OCAF) moving forward to account for property level insurance increases; require HUD, the Federal Housing Finance Agency (FHFA), USDA (United States Department of Agriculture) Rural Housing and other federal stakeholders to review and update lender insurance requirements; providing Internal Revenue Service (IRS) guidance that allows developers to capitalize a pre-defined amount of insurance premiums in eligible basis under the LIHTC and allow for expenses related to insurance procurement and risk mitigation activities that improve property resilience to be capitalized and included in the eligible basis. These administrative actions have the potential to provide limited, but important, short-term relief to housing providers operating subsidized affordable housing.

In the absence of accessible and affordable private sector insurance solutions, today's lack of capacity in the insurance and reinsurance markets is reaching crisis levels and has begun to raise serious alarm across the entire financial system with trillions of dollars in uncovered or uncoverable risk across real estate. NMHC, NAA and other stakeholders in the real estate industry are early in its coalition work to identify possible, long-term solutions. In the past, policymakers have stepped in and created backstops such as the National Flood Insurance Program (NFIP) and the Terrorism Risk Insurance Act (TRIA), when the market disruption or dysfunction has reached similar levels.

This hearing today, is an important step forward in determining what is needed to ensure that federal programs and funding are designed to help mitigate the risks rental housing providers are facing.   It is just as important for Congress examine and support pre-disaster mitigation and community resiliency efforts that will improve the insurability of our nation's rental housing stock and protect the availability and affordability of basic flood insurance coverage.

NMHC and NAA have identified several other areas that should be considered and could help lessen the financial and physical risk faced by rental housing providers and would benefit from Congressional action:

National Flood Insurance Program (NFIP)

Because of the challenges in the broader property insurance market, it is absolutely critical that the NFIP is reauthorized and reformed to ensure its long-term viability. Ensuring that the NFIP is able to continue to ensure that affordable flood insurance is available at all times, in all market conditions for every at-risk rental property is essential. These include more than just high-rise multifamily properties in urban centers and extend across every state to include rental homes of all sizes and types. The reauthorization and reform of the NFIP remains a top priority for our membership to not only protect their property investments but to help manage the increasing costs of providing housing that is affordable.

Resiliency/Mitigation

At the same time, it is essential that Congress do more to prioritize community resiliency and ensure flood prevention and mitigation measures are widely available and affordable to property owners of all types. Resiliency, mitigation and a stable and affordable insurance are all important parts of a comprehensive strategy that is needed to protect our communities and our residents.

It is critical that federal policymakers advance mitigation and resilience strategies that are realistic and not cost prohibitive, protect the long-term viability of rental housing communities regardless of their financing structure, and help reduce the financial and physical risk faced by housing providers and renters by increasingly destructive natural disasters. For example, the Federal Emergency Management Agency (FEMA) administers several mitigation grant programs to reduce damage, claims, and risk in the event of a natural disaster such as flooding. Yet, while apartment communities are not explicitly excluded from eligibility for existing FEMA funds, the grant programs are overwhelmingly focused on primary, single-family homes.

Even further, FEMA has only recently focused attention on the importance of mitigation efforts for properties that cannot benefit from traditional mitigation techniques like building elevation. Unfortunately, many of the recommendations for alternative methods of mitigation that FEMA has made to property owners are impractical for apartment communities and the majority would not afford any flood insurance premium reduction despite the large cost of implementation. Congress should direct FEMA to undertake further actuarial work and issue alternative mitigation guidance specific to rental property owners that is realistic, cost effective and would result in premium reductions under the NFIP and private sector insurance solutions. Additionally, expressly authorizing apartment firms to be eligible for existing mitigation programs or establishing a multifamily and commercial property specific mitigation grant program to address the unique challenges faced by these property owners would be key.

To stabilize the insurance market challenges we have outlined and prevent growing exposure to taxpayers in the wake of unrelenting natural disasters, it will require partnership between policymakers and private sector stakeholders from real estate and insurance to advance solutions that improve climate resilience and sustainability and allow for properly functioning insurance and reinsurance markets to protect our nation's rental housing stock and the broader economy. NMHC and NAA stands ready to assist policymakers in this important work. We thank you for the opportunity to present the views of the multifamily industry as you explore these critical issues.

Sincerely,

Sharon Wilson Géno President National Multifamily Housing Council	Robert Pinnegar President & CEO National Apartment Association