SKYROCKETING INSURANCE COSTS ARE AFFECTING RENTS AND HOUSING AFFORDABILITY

The U.S. has a serious housing affordability crisis that is being exacerbated by turmoil in the insurance market. NMHC’s 2023 State of Multifamily Risk Report provides essential data and insurance industry insight to understand the severity of the situation.

Apartment firms have faced a volatile and costly insurance market for nearly a decade. All apartment firms (market-rate, workforce, affordable) have been affected, but the issue has been particularly acute in the lower-income and middle-income housing space, and the costs of all lines of insurance (property, liability, cyber) have risen.

Higher interest rates + increasing insurance costs + existing housing affordability crisis = the need for policymakers to understand the insurance market challenges. A more stable insurance market will help keep costs manageable, which, in turn, will make rent more affordable.

> INSURANCE MARKETS ARE VOLATILE

U.S. Property Rates Have Continuously Been Increasing For Years

Insured losses in 2022 were well above the 10-year average, with $132 billion in total insured losses and $125 billion in natural catastrophe insured losses.

Today’s property insurance market has severe capacity constraints. Capital is leaving the market due to adverse losses and volatility in the reinsurance market.

New capital is not entering the insurance market despite rising premiums to fill the void.

18 of the 22 Most Expensive Insurance Events in U.S. History Have Occurred Since 2004

Source: NMHC 2023 State of Multifamily Risk Survey and Report and FHS Risk Management; Note: Costs in 2020 dollars except Hurricane Ian is in 2022 dollars and Hurricane Ida is in 2021 dollars

Impact of rising inflation on construction & labor costs
Depleted insurance market capacity
Frequency and severity of Catastrophe (CAT) events
Historical changes in the Reinsurance Market

> THESE FORCES ARE DRIVING VOLATILITY

INSURANCE COVERAGE INCREASES FROM PREVIOUS YEAR (AVG/MAX)

<table>
<thead>
<tr>
<th>Event</th>
<th>Property</th>
<th>Liability</th>
<th>Umbrella</th>
<th>Earthquake</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvey 2017</td>
<td>26.4%</td>
<td>14.7%</td>
<td>16.6%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Irma 2017</td>
<td>120%</td>
<td>1133%</td>
<td>226%</td>
<td>55%</td>
</tr>
<tr>
<td>Sandy 2012</td>
<td>6.2%</td>
<td>24.4%</td>
<td>4.7%</td>
<td>25%</td>
</tr>
<tr>
<td>Maria 2017</td>
<td>226%</td>
<td>133%</td>
<td>220%</td>
<td>55%</td>
</tr>
<tr>
<td>Northridge 1994</td>
<td>$26.7b</td>
<td>$27.5b</td>
<td>$28.7b</td>
<td>$36.0b</td>
</tr>
<tr>
<td>Sept. 11 2001</td>
<td>$19.0b</td>
<td>$21.0b</td>
<td>$23.1b</td>
<td>$23.1b</td>
</tr>
<tr>
<td>Andrew 1992</td>
<td>$25.0b</td>
<td>$25.0b</td>
<td>$54.2b</td>
<td>$54.2b</td>
</tr>
<tr>
<td>Ida 2021</td>
<td>$36.0b</td>
<td>$36.0b</td>
<td>$54.5b</td>
<td>$54.5b</td>
</tr>
<tr>
<td>Katrina 2005</td>
<td>$16.0b</td>
<td>$16.0b</td>
<td>$19.0b</td>
<td>$19.0b</td>
</tr>
<tr>
<td>Ian 2022</td>
<td>$67.0b</td>
<td>$67.0b</td>
<td>$70.0b</td>
<td>$70.0b</td>
</tr>
</tbody>
</table>

> UNTIL NOW, THE TRUE IMPACT HAS NOT BEEN KNOWN

ABOUT THE NMHC SURVEY

<table>
<thead>
<tr>
<th>Ownership</th>
<th>1.6 M UNITS</th>
<th>1.5 M UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market-Rate Class A</td>
<td>Market-Rate Class B</td>
<td></td>
</tr>
<tr>
<td>Market-Rate Class C</td>
<td>Subsidized/Affordable</td>
<td></td>
</tr>
<tr>
<td>Purpose-built Student Housing</td>
<td>Age-Restricted (Seniors)</td>
<td></td>
</tr>
</tbody>
</table>

160 RESPONDENTS

AVG PORTFOLIO MANAGE 18,973 UNITS

AVG PORTFOLIO OWN 11,292 UNITS
The current confluence of high interest rates, increasing costs and an expanding need for affordable and attainable housing highlights the importance of policymakers having a clear understanding of insurance market challenges and their impact on housing affordability.

Today’s lack of capacity in the insurance and reinsurance markets is reaching crisis levels. Federal support of the property insurance market may be necessary to increase capacity and liquidity in both.

Reform and provide a long-term reauthorization of the National Flood Insurance Program so rental housing communities can mitigate the financial and property risk from flooding events.

Policymakers must advance realistic mitigation and resilience strategies to protect our nation’s supply of all types of rental housing communities and help reduce the financial and physical risk renters and housing providers face from increasingly destructive natural disasters.

The impact on housing providers

Property coverage has become more expensive, less comprehensive, and sometimes unavailable.

- Has your insurance carrier included new policy limitations to reduce their exposure in the past three years?
  - Yes: 56.8%
  - No: 43.2%

- Have you been forced to increase your deductible in the past three calendar years to maintain affordability?
  - Yes: 60.6%
  - No: 39.4%

What percentage of the portfolio is in an area that had a named storm in the last 3 calendar years?

- Count: 121
  - Median: 10.0%
  - Average: 20.7%

What is the largest loss in the last three years?

- Fire: 23.8%
- Texas/Southern State Freeze: 24.6%
- Water Damage/Flood/Hurricane (not Wind): 16.2%
- Wind Storm/Hurricane (wind)/Tornado/Lightning: 7.7%

Efforts to manage increased costs due to higher premiums

- 84% are or plan on taking action to manage costs
- 72% increase deductibles
- 49% decrease operating expenses
- 49% increase rent

Source: Increased Insurance Costs for Housing Providers