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

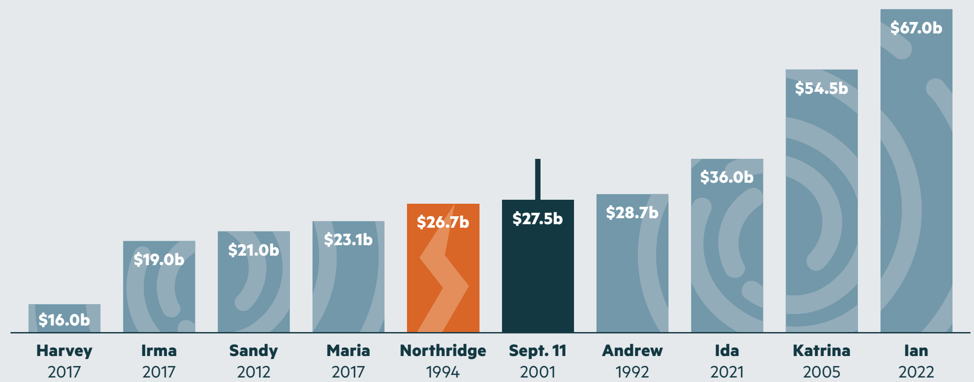
U.S. Property Rates Have Continuously Been Increasing For Years

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

> THESE FORCES ARE DRIVING VOLATILITY

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

INSURANCE COVERAGE INCREASES FROM PREVIOUS YEAR (AVG/MAX)

Coverage	AVG	MAX
Property	26.4%	120%
Liability	14.7%	133%
Umbrella	16.6%	226%
Earthquake	14.9%	55%
Terrorism	6.2%	80%
Cyber	24.4%	220%
Crime	4.7%	25%

> UNTIL NOW, THE TRUE IMPACT HAS NOT BEEN KNOWN

ABOUT THE NMHC SURVEY

160 RESPONDENTS

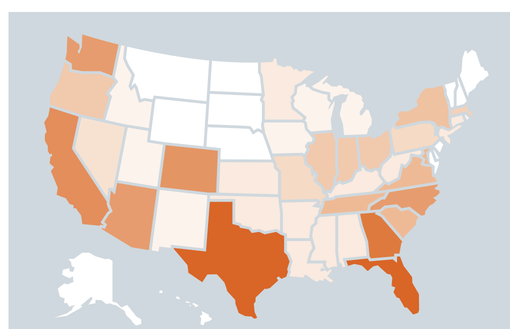
OWN **1.6 M** UNITS

AVG PORTFOLIO MANAGE **18,973** UNITS

MANAGE **1.5 M** UNITS

AVG PORTFOLIO OWN **11,292** UNITS

- Market-Rate Class A
- Market-Rate Class B
- Market-Rate Class C
- Subsidized/Affordable
- Purpose-built Student Housing
- Age-Restricted (Seniors)



THE IMPACT ON HOUSING

Property operations are being strained. Owners are being forced to defer maintenance, cut other expenses and raise rents to cover these higher costs as a last resort.

These dynamics are impacting valuations, disrupting transactions, deterring investors and leading to growing areas of uninsured risk. **THE NATION'S HOUSING AFFORDABILITY CRISIS WORSENS.**

> THE POLICY RESPONSE

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.

POLICYMAKERS SHOULD:

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?

56.8% YES

29.0% NO

Have you been forced to increase your deductible in the past three calendar years to maintain affordability?

60.6% YES

30.3% NO

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

121 COUNT

20.7% AVERAGE

10.0% MEDIAN

What is the largest loss in the last three years?

23.8% Fire

24.6% Texas/Southern State Freeze

16.2% Water Damage/ Flood/ Hurricane (not Wind)

7.7% Wind Storm/ Hurricane (wind)/Tornado/ Lightning

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