Increased Insurance Costs for Affordable Housing Providers

Survey findings on the magnitude, rationale, and impact of increased insurance premiums on affordable housing providers

October 2023

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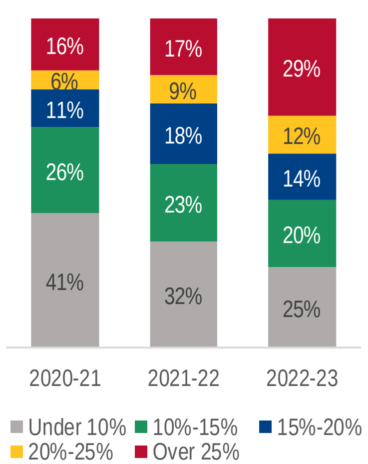
EXECUTIVE SUMMARY

In August and September 2023, ndp | analytics conducted a survey on changes in housing providers' insurance premiums for 2020, 2021, and 2022 policy renewals. We received 404 responses from affordable housing providers who, in total, operated approximately 2.7 million housing units across the United States.

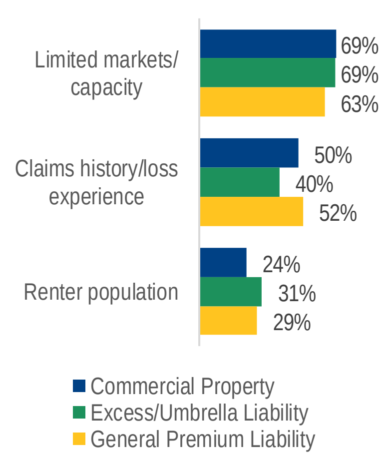
Nearly all housing providers are taking actions such as increasing insurance deductibles, cutting expenses, or raising rents to manage higher operating costs due to higher insurance premiums driven by limited markets, claims history, and renter populations.

1. <u>Premium Increases</u>: Affordable housing providers are experiencing higher premiums across multiple lines of insurance. For 2022-23 policy renewals, 29% of housing providers experienced premium increases of 25% or more compared to 17% in the prior year.
2. <u>Top Reasons for Premium Increases:</u> Limited markets and capacity are the top reason for premium increases for housing providers across lines of insurance, followed by claims history and loss experience, and renter population.
3. <u>Managing Increased Operating Costs due to Premium Increases</u>: Over 93% of housing providers indicated that they would take action to mitigate cost increases due to higher insurance premiums. Three most common actions are increasing insurance deductibles, decreasing operating expenses, and increasing rent.

Premiums Increases[1]



Top Reasons for Premium Increases for 2022-23 Renewals



Managing Increased Operating Costs Due to Premium Increases

[1] Includes commercial property, general premium liability, and excess/umbrella liability insurance.

Increased Insurance Costs for Affordable Housing Providers

Nam D. Pham, Ph.D. and Mary Donovan[2]

October 2023

The National Leased Housing Association (NLHA) partnered with ndp analytics to assess the magnitude and impact of increased insurance rates on affordable housing providers. Our research focuses on changes in coverage and costs for three lines of insurance over the past three years: commercial property, premium general liability, and excess/umbrella liability.

This report organized as follows:

- Section 1: Overview and Survey Demographics.
- Section 2: Premium Increases and Top Reasons for Increases – All Lines of Insurance.
- Section 3: Managing Increased Operating Costs due to Premium Increases – All Lines of Insurance.
- Section 4: Deep Dives by Line of Insurance.

Section 1. Overview and Survey Demographics

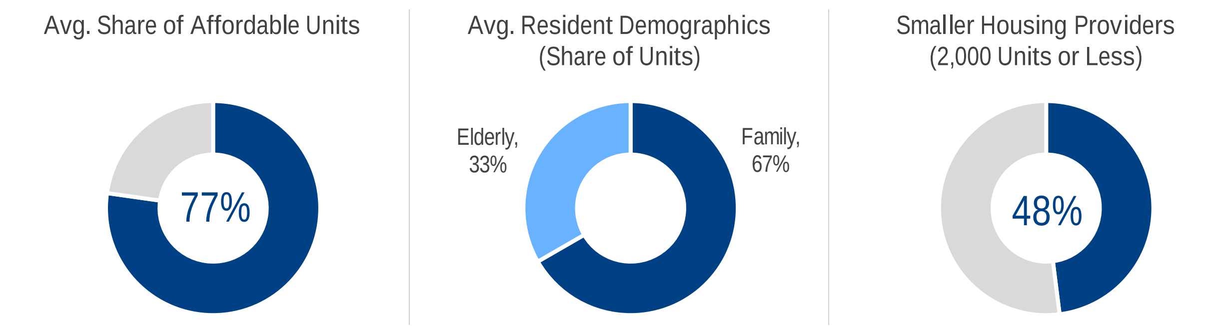
Across the United States, housing providers have been experiencing increased premiums across all lines of insurance. To better understand the magnitude, rationale, and impact of these premium increases, we conducted an online survey of multifamily housing providers in August and September 2023. In total, we received 418 responses including housing providers with insurance policies covering affordable housing units and policies that covered both affordable and conventional housing. The survey respondents operated nearly 2.7 million housing units across the United States including over 1.7 million affordable housing units and about 936,000 market-rate units.

Housing providers who respondent to this survey often operated a combination of affordable and conventional (market-rate) units. On average, respondents' portfolios were 77% affordable housing units and 23% conventional units. In an average portfolio, two-thirds of units are occupied by families and one-third are elderly residents. About 48% of housing providers operate 2,000 units or less. (Figure 1)

[2] Nam D. Pham, Ph.D., is managing partner and Mary Donovan is principal at ndp | analytics. The National Leased Housing Association provided financial support to conduct this study. The opinions and views expressed in this report are solely those of the authors.

Figure 1.

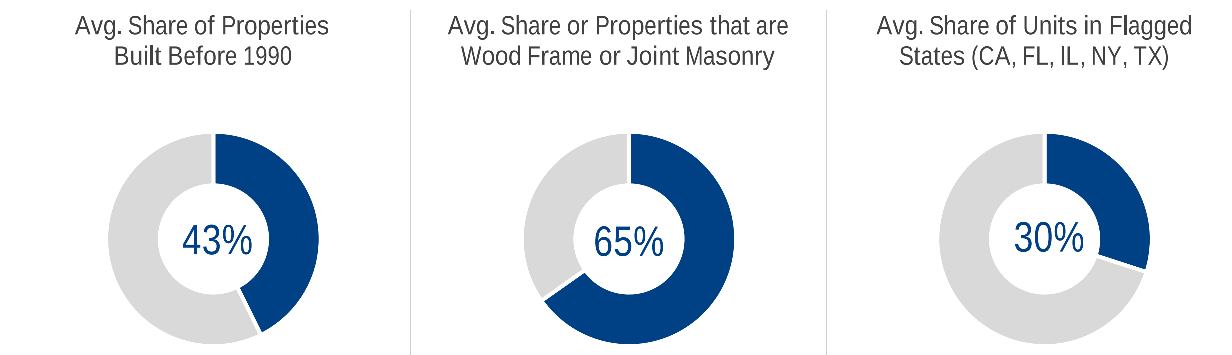
Portfolio Characteristics: Affordable Housing, Residents, and Size



On average, 43% of properties were built before 1990 and 65% are wood frame or joint masonry constructions. Our research also examined states that industry experts identified as especially challenging insurance environments, including California, Florida, Illinois, New York, and Texas. Housing providers operated an average of 30% of their units in these "flagged" states. (Figure 2)

Figure 2.

Portfolio Characteristics: Property Types and Location



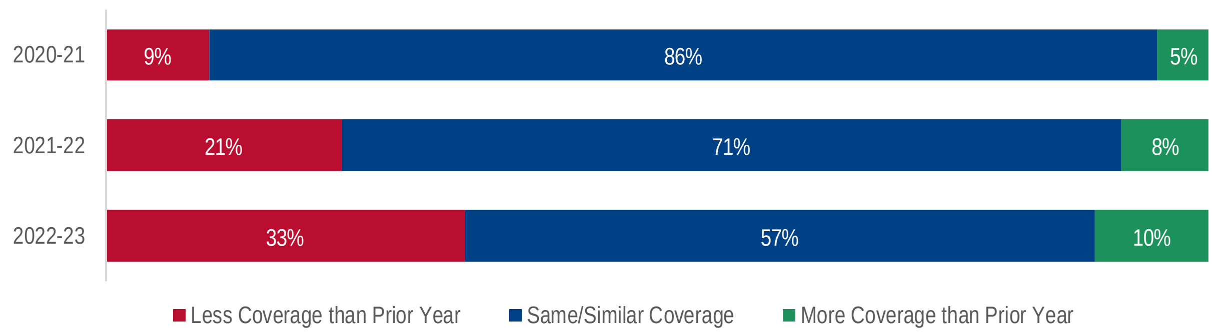
Section 2. Premium Increases and Top Reasons for Increases – All Lines of Insurance

Housing providers are experiencing steep rate increases across lines of insurance. Deductibles are rising and restrictions or changes in policies are becoming more common, as are reductions in limits. This section summarizes the aggregated findings of our analysis. Detailed findings on commercial property insurance, general premium liability, and excess/umbrella liability broken out as "deep dives" in Section 4.

Changes in Coverage

Housing providers are accepting less coverage as premiums increase. For the 2020-21 policy year, over 86% commercial property, premium general liability, and excess/umbrella liability policies were renewed with the same or similar levels of coverage, only 9% had decreased coverage from the prior year. Two years later, for 2022-23 renewals, only 57% of policies continued with the same or similar levels of coverage and nearly 33% has less coverage compared to the prior year. (Figure 3)

Figure 3.
All Lines of Insurance: Level of Coverage for Policy Renewals

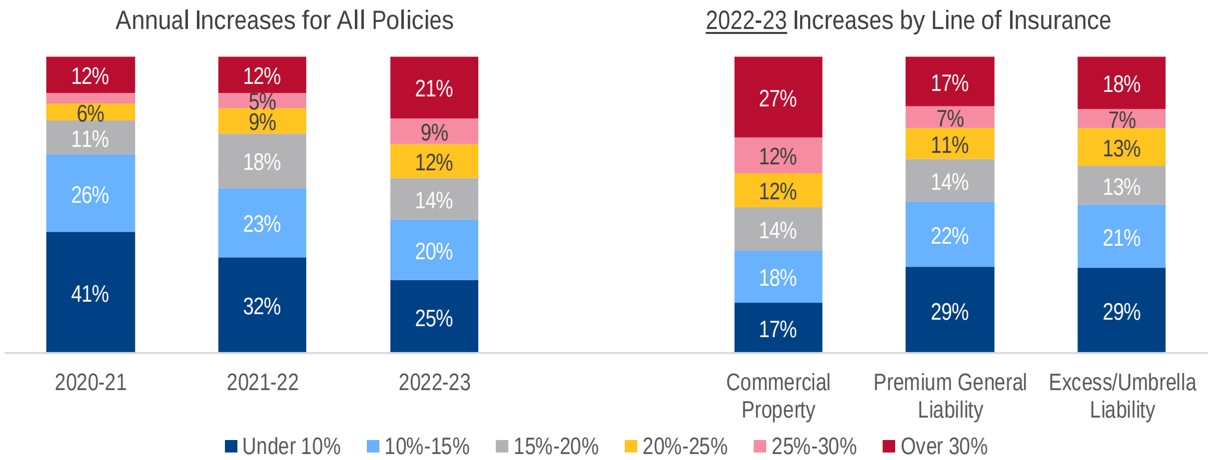


Premium Increases

Premiums are increasing across all lines of insurance. For 2022-23 renewals, nearly one in every three policies had rate increases of 25% or more (21% of policies increased by over 30%; 9% increased between 25% and 30%). The magnitude of rate increases is higher than in prior years. For 2020-21 and 2021-22 renewals, 16% and 17% of policies increased by 25% or more, respectively. (Figure 4)

Within 2022-23 renewals, commercial property policies had the steepest increase in rates compared to the prior year: 39% of policies increased over 25%, compared to 24% of general liability policies and 20% of excess and umbrella liability policies. (Figure 4)

Figure 4.
All Lines of Insurance: Premium Increases

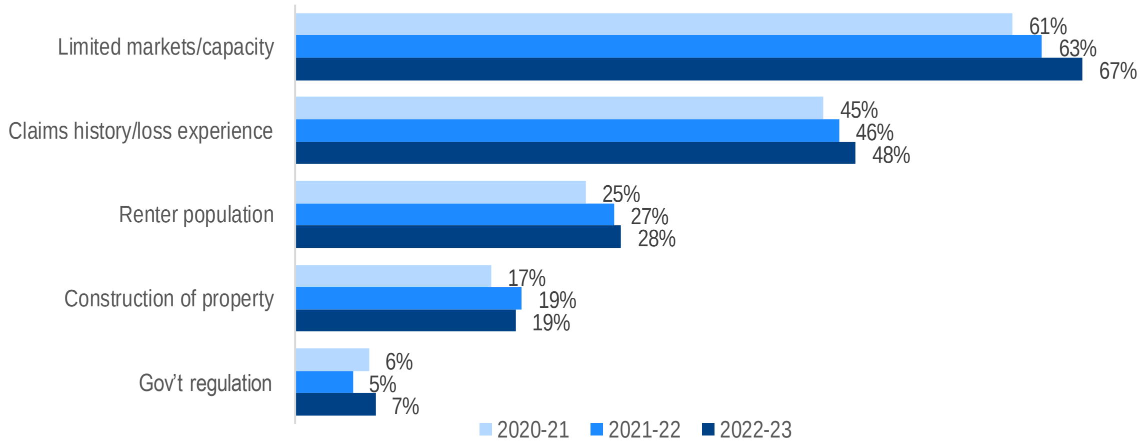


Note: values under 5% not displayed.

Rationale for Increases

Across all lines of insurance, limited markets are the top reason for higher premiums. This factor is increasingly an issue in managing costs. For 2020-21 renewals, 61% of policies increased due to limited markets and capacity. Most recently, for 2022-23 renewals, it has become an even more common factor: 67% of policies increased due to limited markets. Claims history is the second most common rationale for premium increases, followed by renter population. (Figure 5)

Figure 5.
All Lines of Insurance: Rationale for Premium Increases

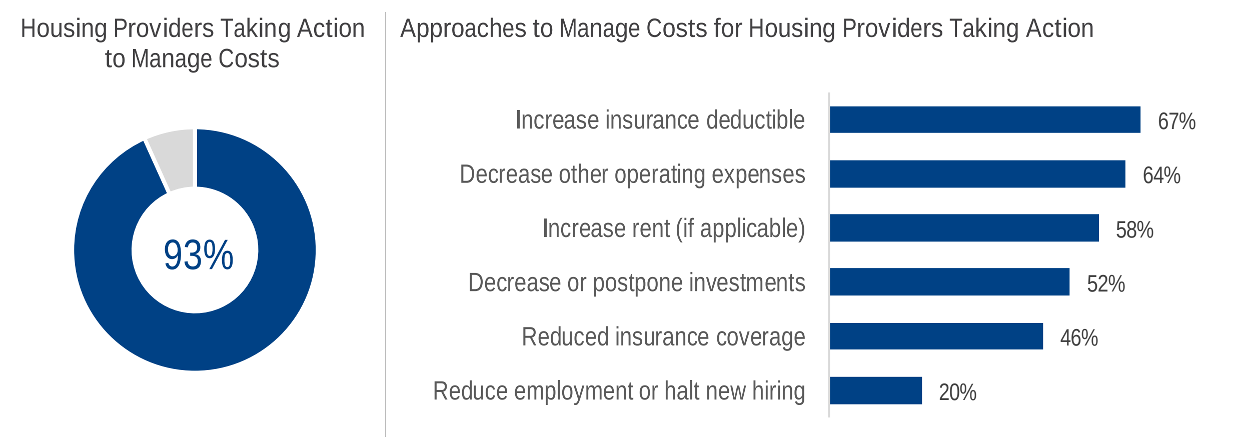


Section 3. Managing Increased Operating Costs due to Premium Increases – All Lines of Insurance

The survey asked respondents about current or planned actions to manage costs due to higher premiums. The selection included: decrease or postpone investments in improvements or updates to current housing units and/or future housing projects, increase rent (if applicable), reduce employment or keep from hiring new workers, decrease other operating expenses, increase insurance deductible, reduce insurance coverage, other, and no planned action.

Nearly all (93%) of housing providers indicated that they are or plan on taking action to manage costs. Of those housing providers who plan to or are currently taking action to manage increased costs due to higher insurance premiums, top actions include increasing in insurance deductibles (67%), decreasing operating expenses (64%), and increasing rent (58%). (Figure 6)

Figure 6.
Share of Housing Providers Taking Action to Manage Increased Costs Due to Higher Premiums



Section 4. Deep Dives by Line of Insurance

This section includes three deep dives on each line of insurance. It provides detailed data on premium increases, deductibles, restrictions and changes in coverage, and reduction of limits. It also analyzes data based on the characteristics of housing provider portfolios (See Box 1).

1. Commercial Property (page 8)
    - Level of coverage for policy renewals
    - Property values vs. premium increases
    - All other perils and base deductibles
    - Earthquake and wind deductibles
    - Reductions in limits
    - Restrictions and changes in coverage
    - Rationale for rate increases

2. Premium General Liability (page 15)
    - Level of coverage for policy renewals
    - Premium increases
    - Changes in carriers
    - SIR/deductibles
    - Restrictions to coverage
    - Rationale for rate increases

3. Excess and Umbrella Liability (page 20)
    - Level of coverage for policy renewals
    - Premium increases
    - SIR/deductibles
    - Reduction in limits
    - Restrictions to coverage
    - Rationale for rate increases

Box 1.

Data Breakouts by Portfolio Characteristics

We selected a range of housing portfolio characteristics to analyze variations in changes in insurance policies.

- High % Affordable: Includes respondents with an above average share of affordable housing units. The threshold is 77% (See Figure 1).
- High % Elderly: Includes respondents with an above average share of housing units occupied by elderly residents. The threshold is 33% (See Figure 1).
- High % Family: Includes respondents with an above average share of housing units occupied by families. The threshold is 66% (See Figure 1).
- High % Flagged States: Includes respondents with an above average share of units in CA, FL, IL, NY, and TX. The threshold is 30% (See Figure 2).
- High % Wood Frame and Joint Masonry (JM): Includes respondents with above average shares of properties with wood frame or joint masonry construction. The threshold is 65% (See Figure 2).
- High % Older Builds: Includes respondents with above average shares of properties built before 1990. The threshold is 43% (See Figure 2)
- Smaller Housing Providers: Includes respondents that operate 2,000 units or less (See Figure 1)

Deep Dive #1: Commercial Property Insurance

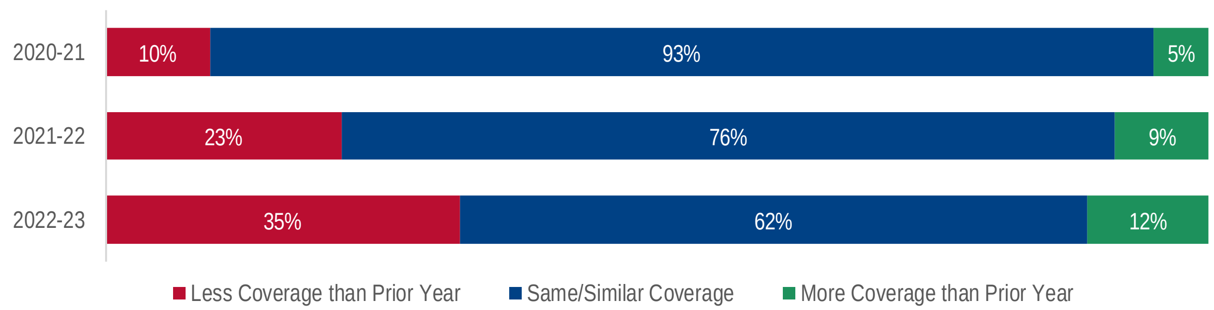
This section examines seven topics related to changes commercial property insurance for 2020-21, 2021-22, and 2022-23 insurance policy renewals:

1. Level of coverage for policy renewals
2. Property values vs. premium increases
3. All other perils and base deductibles
4. Earthquake and wind deductibles
5. Reductions in limits
6. Restrictions and changes in coverage
7. Rationale for rate increases

Level of Coverage for Policy Renewals

Housing providers are accepting less coverage. For the 2020-21 policy year, 93% of commercial property policies renewed with the same or similar coverage, only 10% decreased coverage from the prior year. In contrast, for 2022-23 renewals, only 62% continued with the same or similar levels of coverage and nearly 35% decreased coverage compared to the prior year. (Figure 7)

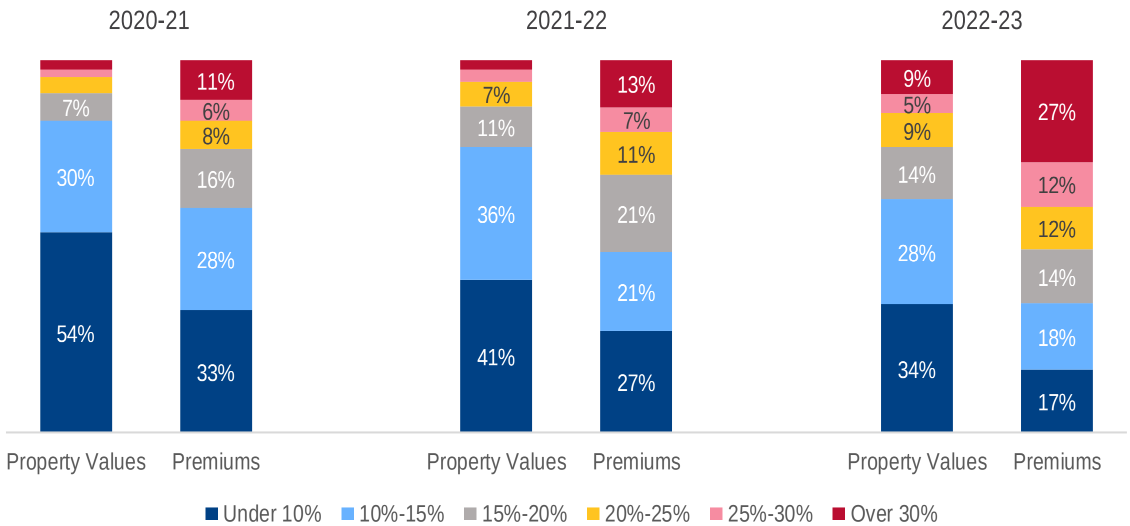
Figure 7.
Commercial Property Insurance: Level of Coverage for Policy Renewals



Property Values vs. Premium Increases

Commercial property insurance premiums have been increasing faster than property values. For 2022-23 renewals, 27% of commercial property policy rate increased over 30%, and 39% increased by 25% or more. Yet only 9% experienced that level of property value gains. The magnitude of rate increases was far higher for 2022-23 than prior years. For 2020-21 and 2021-22 renewal years, only 11% and 12% of policies increased over 30%, respectively. (Figure 8)

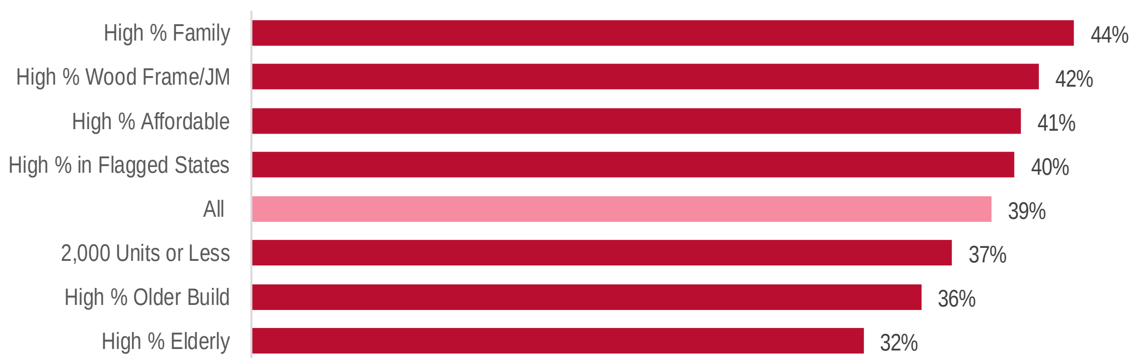
Figure 8.
Commercial Property Insurance: Property Values vs. Premium Increases



Note: Values under 5% not displayed.

For the most recent renewal period, 2022-23, 39% of commercial property policies had rate increases above 25% (See Figure 8: 12% had rate increases between 25% and 30%; 27% had rate increases above 30%). Increases varied by portfolio characteristics. Nearly 44% of policies held by housing providers with a high share of families experienced rate increases above 25%, and 42% policies held by housing providers with a high share of wood frame or joint masonry properties had rate increases of this magnitude. (Figure 9)

Figure 9.
Commercial Property Insurance: 2022-23 Premium Increases of 25% or More, by Portfolio Characteristics

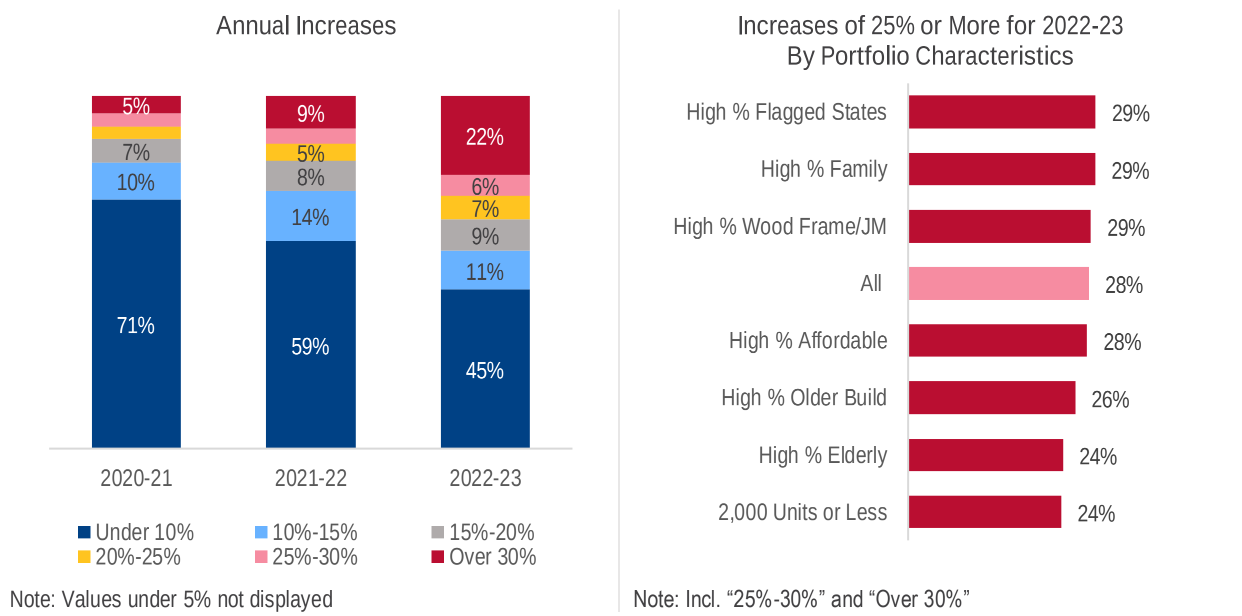


Note: Incl. “25%-30%” and “Over 30%”

All Other Perils or Base Deductibles

Similar to the trend for commercial property premiums, All Other Perils (AOP) or Base deductibles increased more for 2022-23 renewals compared to previous years. For 2022-23, 28% of policies with AOP/Base deductible increased by 25% or more (6% increased by 25%-30% and 22% increases over 30%). By portfolio characteristics, rate increases of this magnitude ranged from 24% of policies held by housing providers with 2,000 units or less to more than 29% of policies held by housing providers with a high share of units in flagged states (CA, FL, IL, NY, TX), family units, and wood frame or joint masonry construction. (Figure 10)

Figure 10.
Commercial Property Insurance: All Other Perils or Base Deductibles

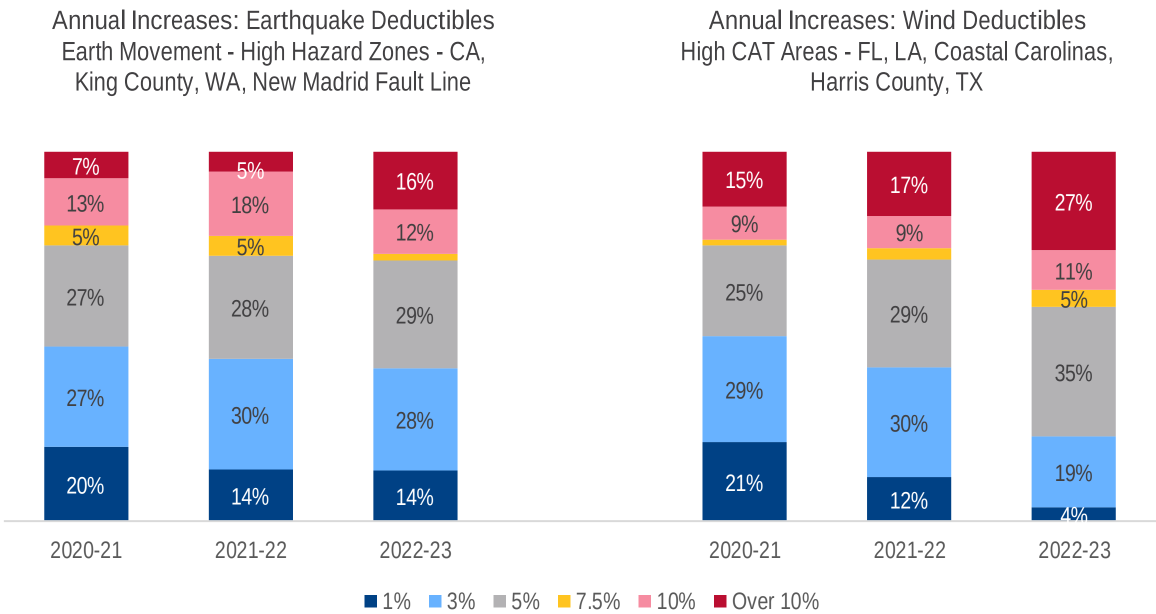


Earthquake and Wind Deductibles

Approximately 14% of housing providers reported earthquake deductibles for high hazard zones including the state of California, King County in Washington, and along the New Madrid Fault Line. Among the housing providers with earthquake deductibles, 16% of policies increased by more than 10% for 2022-23 renewals. In the two years prior, only 7% and 5% of policies increased by that magnitude for 2020-21 and 2021-22 renewals, respectively. (Figure 11)

About 31% of housing providers reported wind deductibles for high CAT areas including Florida, Louisiana, the coastal areas of North and South Carolina, and Harris County in Texas. Among these housing providers, 27% of policies increased over 10% for 2022-23 renewals. The share of policies with steep year-over-year increases is growing. In the two years prior, 2020-21 and 2021-22, 15% and 17% of policy increased by more than 10%, respectively. (Figure 11)

Figure 11.
Commercial Property Insurance: Earthquake and Wind Deductibles

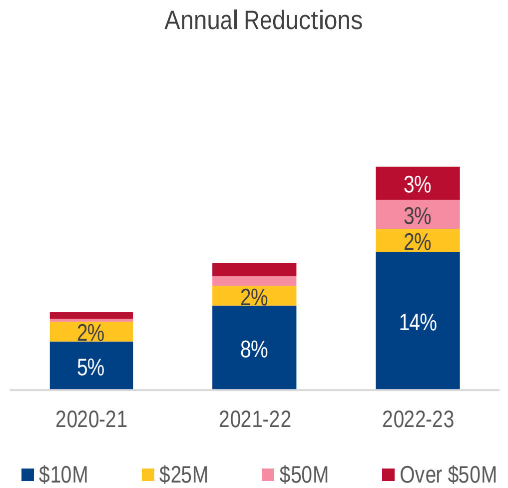


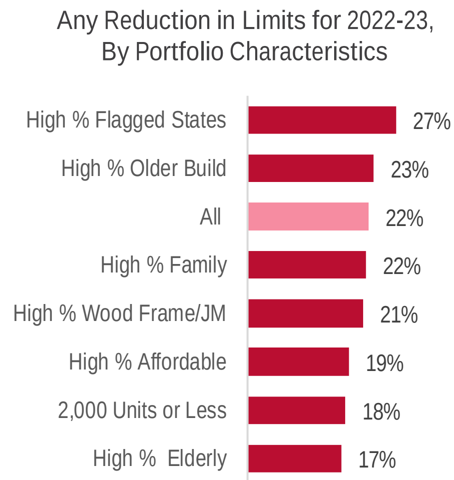
Note: Values under 5% not displayed

Reduction in Limits

The share of housing providers taking reductions in limits on commercial property policies is growing. For 2022-23 renewals, 22% commercial property policies included reductions in limits, compared to 12% for 2021-22 and 8% for 2020-21. Over the past three years, $10 million was the most common reduction taken, however, the share of policies with reductions of $50 million or more is growing. When examined by portfolio characteristics, reductions were most common in policies held by housing providers with a high share of units in flagged states (California, Florida, Illinois, New York, and Texas): 27% of policies in these portfolios included reductions for 2022-23 compared to 22% for policies overall. (Figure 12)

Figure 12.
Commercial Property Insurance: Reductions in Limits

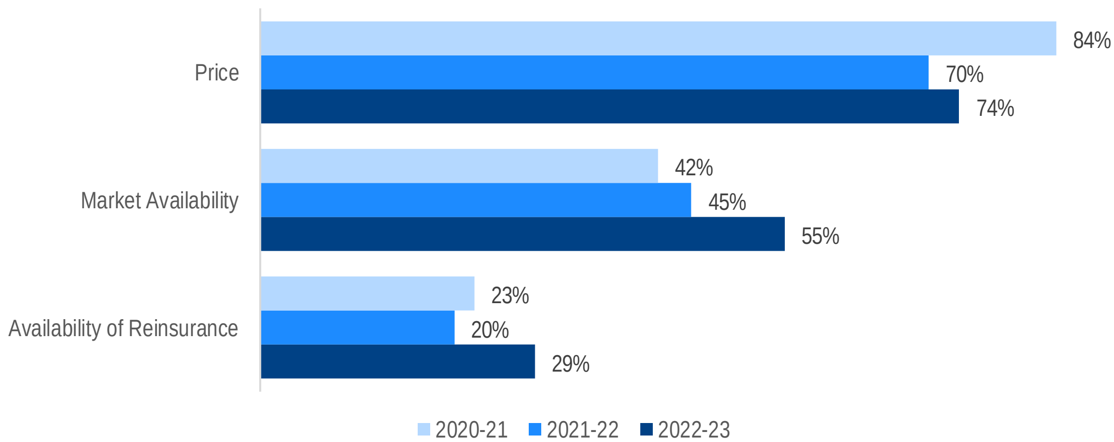




Note: Values under 2% not displayed.

Price was the top factor for taking reductions in limits (74% for 2022-23). However, market availability is becoming a more common driver. For 2020-21 policy renewals, 42% identified market availability as a reason for taking reductions in limits. For 2022-23 renewals, market availability rose to 55%. Reinsurance availability is increasingly a factor, but it is still much less common than price and market availability. (Figure 13).

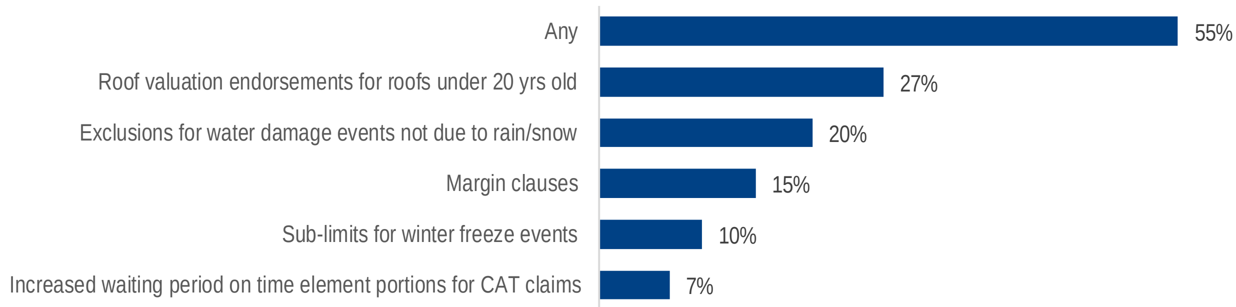
Figure 13.
Commercial Property Insurance: Rationale for Reductions in Limits



Restrictions and Changes in Coverage

Over half of commercial property policies now have more restrictions and changes in coverage than they used to, the most common being valuation endorsement for roofs under 20 years old (27%) and exclusions for water damage events not due to rain or snow (20%). (Figure 14)

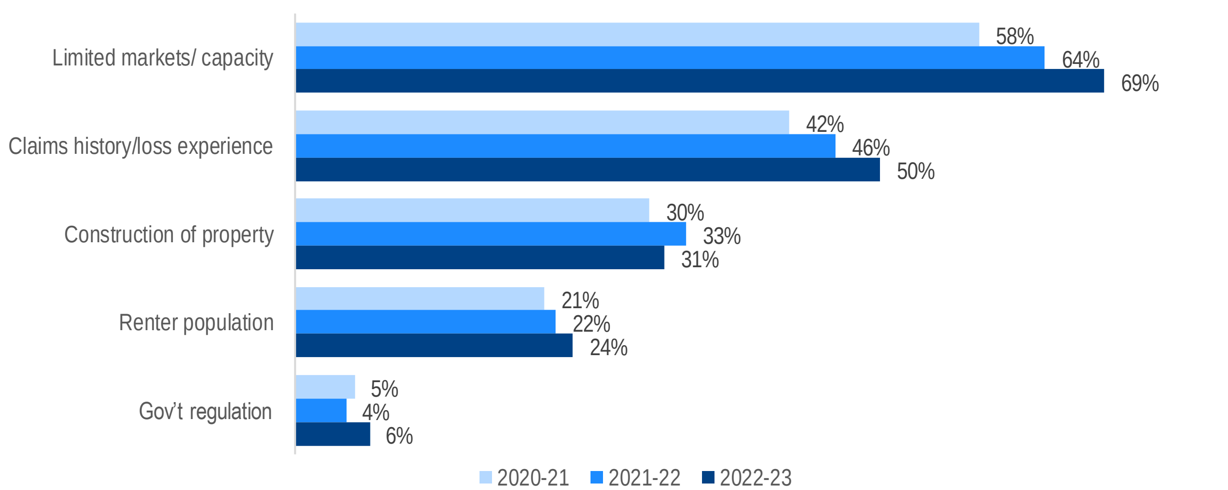
Figure 14.
Commercial Property Insurance: Restrictions and Changes to Coverage



Rational for Premium Increases

Limited markets and capacity are the top reason for increases in commercial property premiums. For 2020-21 renewals, 58% of policies had rate increases for this reason, and, two years later, it impacted 69% of policies. Claims history and loss experience was the second top factor and has also become an increasingly common factor in rate increases. (Figure 15)

Figure 15.
Commercial Property Insurance: Rationale for Premium Increases



Limited markets was the most applicable to policies held by housing providers with higher shares of units in flagged states (74% compared to 69% overall). The second top reason for premium increases, claims history and loss experience, was most applicable to policies held by housing providers with higher shares of affordable housing (54% compared to 50% overall). (Figure 16)

Figure 16.
Commercial Property Insurance: Rationale for 2022-23 Premium Increases, by Portfolio Characteristics

Deep Dive #2. Premium General Liability Insurance

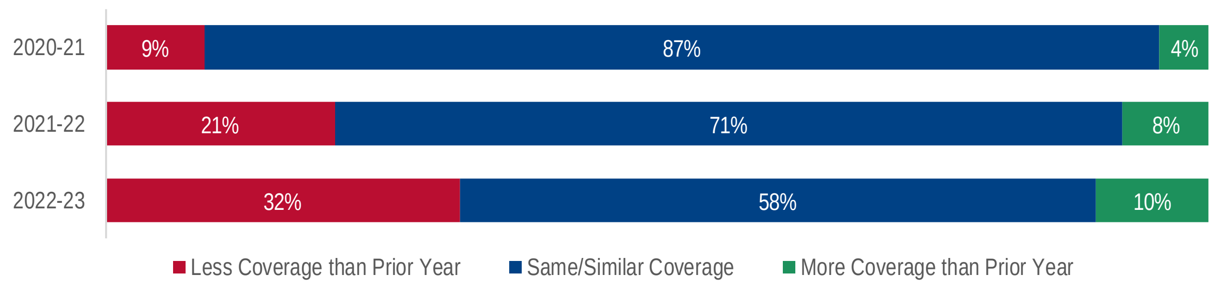
This section examines six topics related to changes to premium general liability insurance for 2020-21, 2021-22, and 2022-23 insurance policy renewals:

1. Level of coverage for policy renewals
2. Premium increases
3. Changes in carriers
4. SIR/deductibles
5. Restrictions to coverage
6. Rationale for rate increases

Level of Coverage for Policy Renewals

The level of premium general liability coverage for housing providers is declining. For the 2020-21 policy year, 87% of policies renewed with the same or similar coverage, while 9% decreased coverage from the prior year. For 2022-23 renewals, 58% continued with the same or similar coverage and 32% decreased coverage compared to the prior year. (Figure 17)

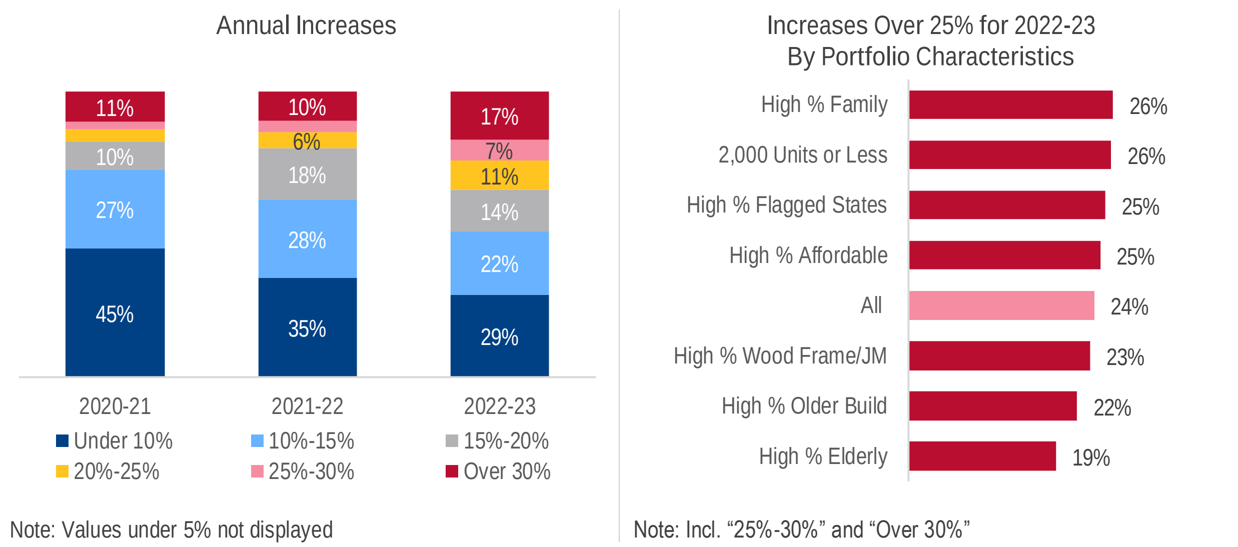
Figure 17.
Premium General Liability Insurance: Level of Coverage for Policy Renewals



Premium Increases

General liability premiums have been increasing year-over-year. For 2022-23 renewals, 24% of policies had rates increased by 25% or more (17% increased over 30% and another 7% increased between 25%-30%). The magnitude of rate increases was far higher for 2022-23 policies than prior years. For 2020-21 and 2021-22 renewals, only 14% policies increased by 25% or more each year. The steepest premium increases (25% or more) for 2022-23 were most common for policies held by housing providers with a high share of families as residents and those with 2,000 units or less. (Figure 18)

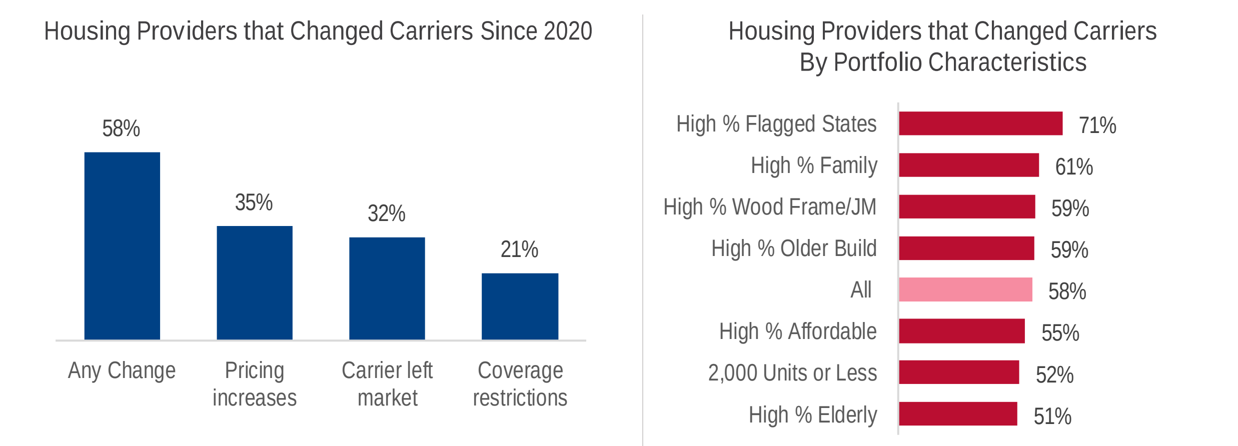
Figure 18.
Premium General Liability Insurance: Premium Increases



Changes in Carriers

Over the past three years, 58% of housing providers have had to change insurance providers at least once. Over 35% changed due to price increases, 32% changed because their carrier left the market, and 21% changed due to coverage restrictions. Changes were most often reported by housing providers with a high share of units in flagged states (California, Florida, Illinois, New York, and Texas). (Figure 19)

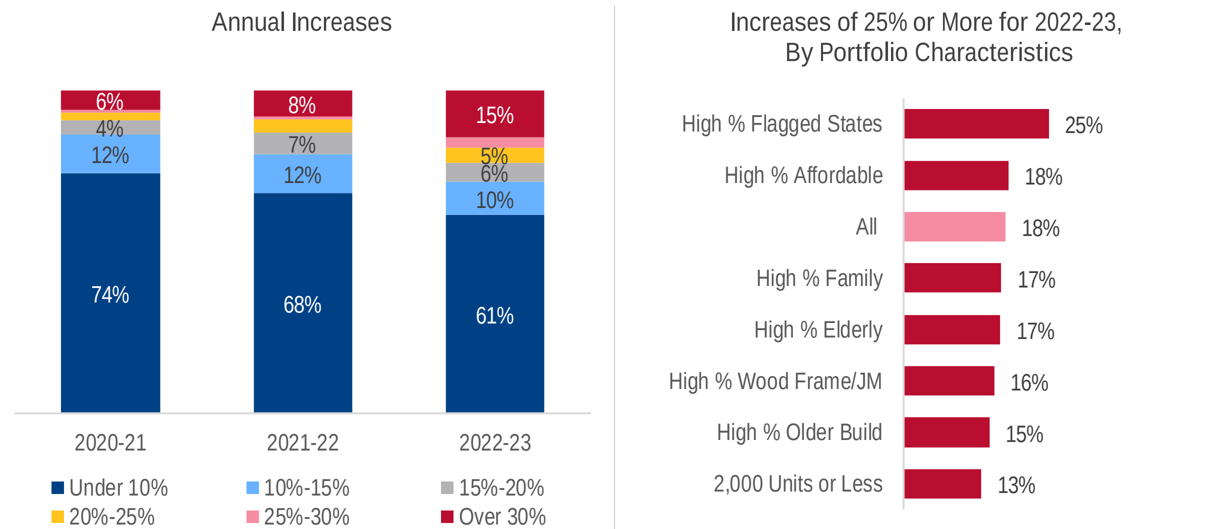
Figure 19.
Premium General Liability Insurance: Changes in Carriers and Rationale



SIR/Deductibles

Changes in SIR and deductibles for premium general liability insurance have followed the same trend as policy premiums. The share of policies with increases of 25% or more has risen from 6% for 2020-21 renewals to 18% for 2022-23. Rate increases of this magnitude were most common in policies held by for housing providers with a high share of units in flagged states (California, Florida, Illinois, New York, and Texas): 25% of SIR/deductibles increased by 25% or more for 2022-23 renewals compared to 18% overall. (Figure 20)

Figure 20.
Premium General Liability Insurance: SIR/Deductibles



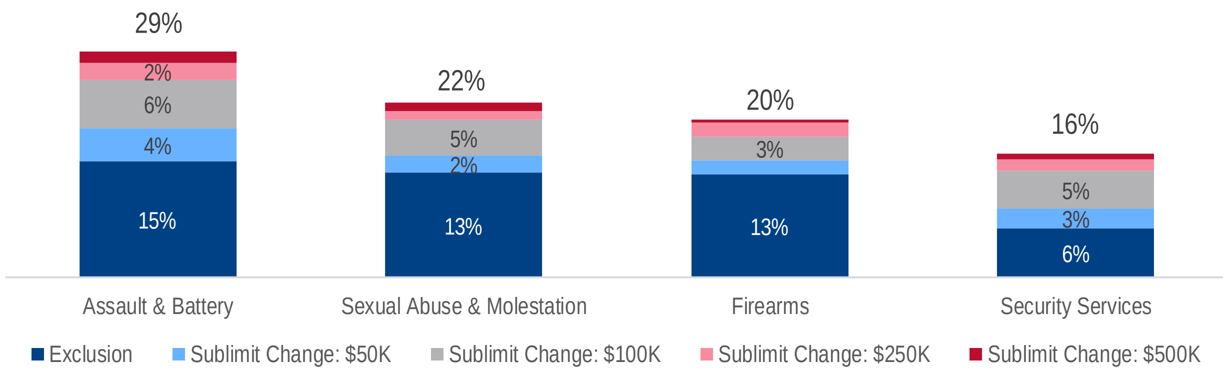
Note: Values under 5% not displayed

Note: Incl. “25%-30%” and “Over 30%”

Restrictions to Coverage

The most common change in restrictions to premium general liability coverage were related to assault and battery: 15% of policies included exclusions, 4% had sublimits change by $50,000, 6% had sublimits change by $100,000, and 4% had sublimits change by $250,000 or more. (Figure 21)

Figure 21.
Premium General Liability Insurance: Restrictions to Coverage

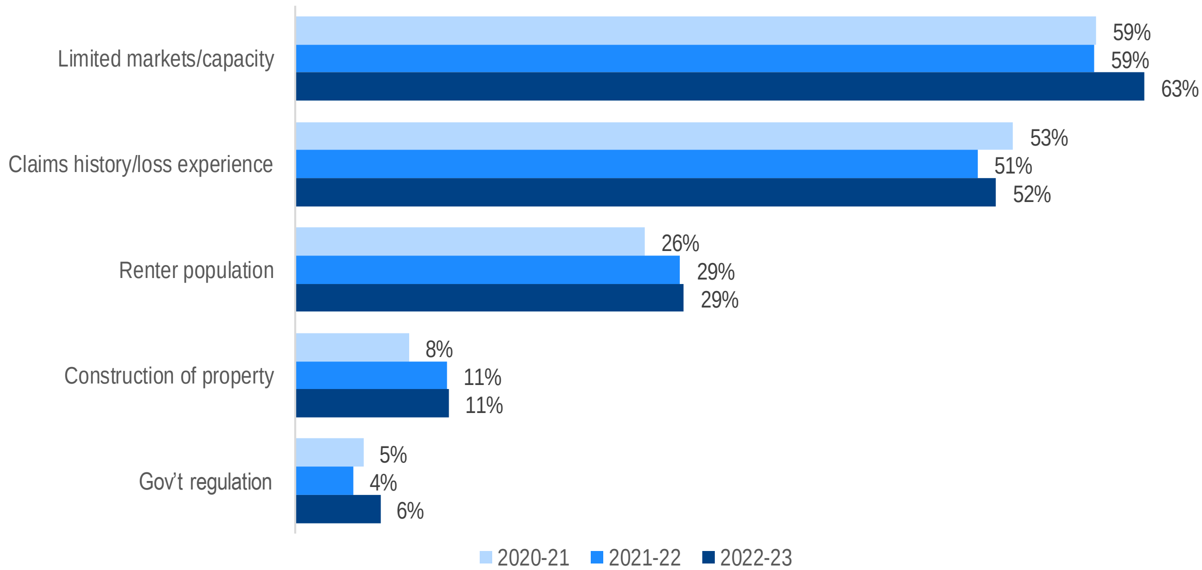


Note: Values under 2% not displayed

Rationale for Premium Increases

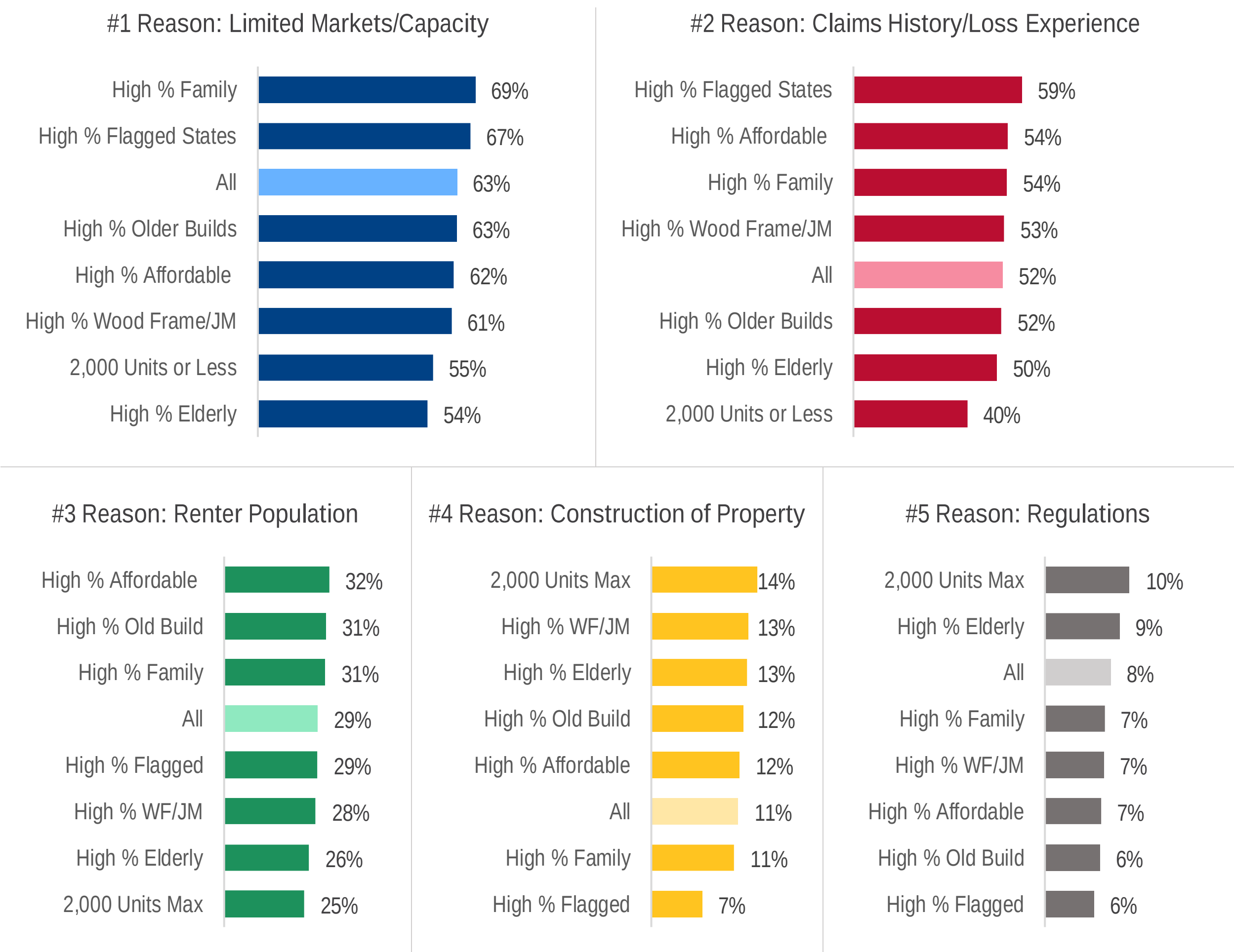
Limited markets and capacity are the top reason for increases in premium general liability premiums. For 2020-21 renewals, this was the primary factor for 59% of policies and, two years later, it impacted 63% of policies. Claims history and loss experience was the second top factor, 52% identified this as a driver for increased premiums for 2022-23. (Figure 22)

Figure 22.
Premium General Liability Insurance: Rationale for Premium Increases



Limited markets were the most common driver of higher premiums for policies held by housing providers with a high share of families as residents (69% compared to 63% overall). The second top reason for premium increases, claims history and loss experience, was most common for policies held by housing providers with a higher share of units in flagged states, including California, Florida, Illinois, New York, and Texas (59% compared to 52% overall). (Figure 23)

Figure 23.
Premium General Liability Insurance: Rationale for 2022-23 Premium Increases, by Portfolio Characteristics



Deep Dive #3. Excess and Umbrella Liability Insurance

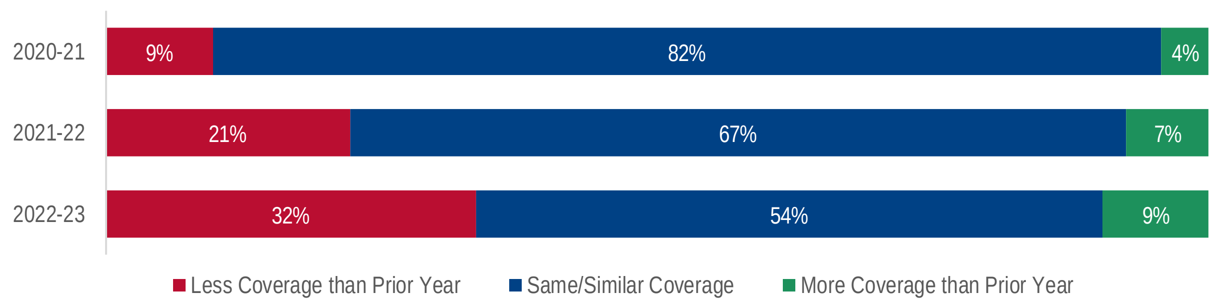
This section examines six topics related to changes to excess and umbrella liability insurance for 2020-21, 2021-22, and 2022-23 insurance policy renewals:

1. Level of coverage for policy renewals
2. Premium increases
3. SIR/deductibles
4. Reduction in limits
5. Restrictions to coverage
6. Rationale for rate increases

Level of Coverage Policy Renewals

Similar to other lines of insurance, excess/umbrella liability coverage for housing providers is declining. For the 2020-21 policy year, 82% of policies renewed with the same or similar coverage, while about 9% decreased coverage from the prior year. For 2022-23 renewals, only 54% continued with the same or similar coverage and 32% decreased coverage compared to the prior year. (Figure 24)

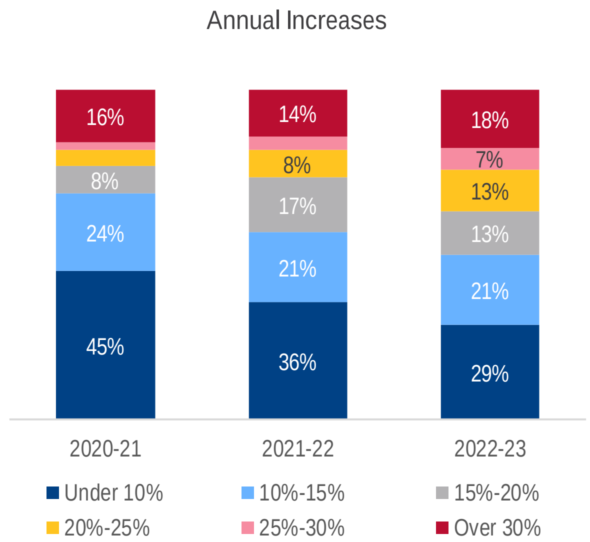
Figure 24.
Excess and Umbrella Liability Insurance: Level of Coverage for Policy Renewals



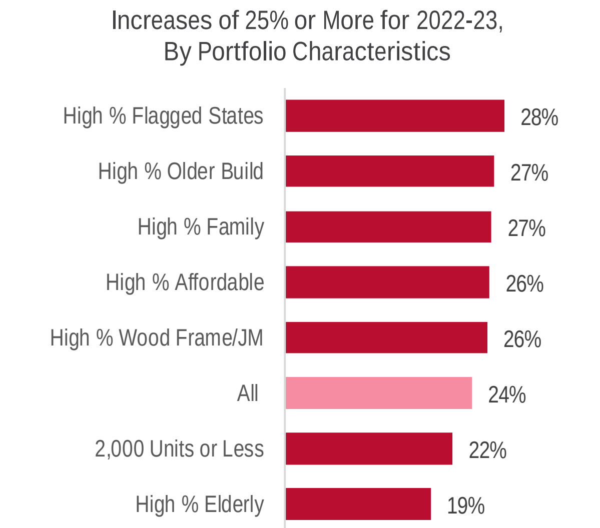
Premium Increases

Excess and umbrella liability premiums have been increasing year-over-year. For 2022-23 renewals, 24% of policies increased by 25% or more (18% increased over 30% and another 7% increased between 25%-30%). The share policies with this magnitude of rate increases was higher for 2022-23 renewals than prior years. For 2020-21 and 2021-22 renewals, about 18% of policies had increases of 25% or more each year. The steepest premium increases (25% or more) for 2022-23 were most common in policies held by housing providers with a high share of units in flagged states (California, Florida Illinois, New York, and Texas) and with a high share of buildings constructed before 1990 ("older builds"). (Figure 25)

Figure 25.
Excess and Umbrella Liability Insurance: Premium Increases



Note: Values under 5% not displayed

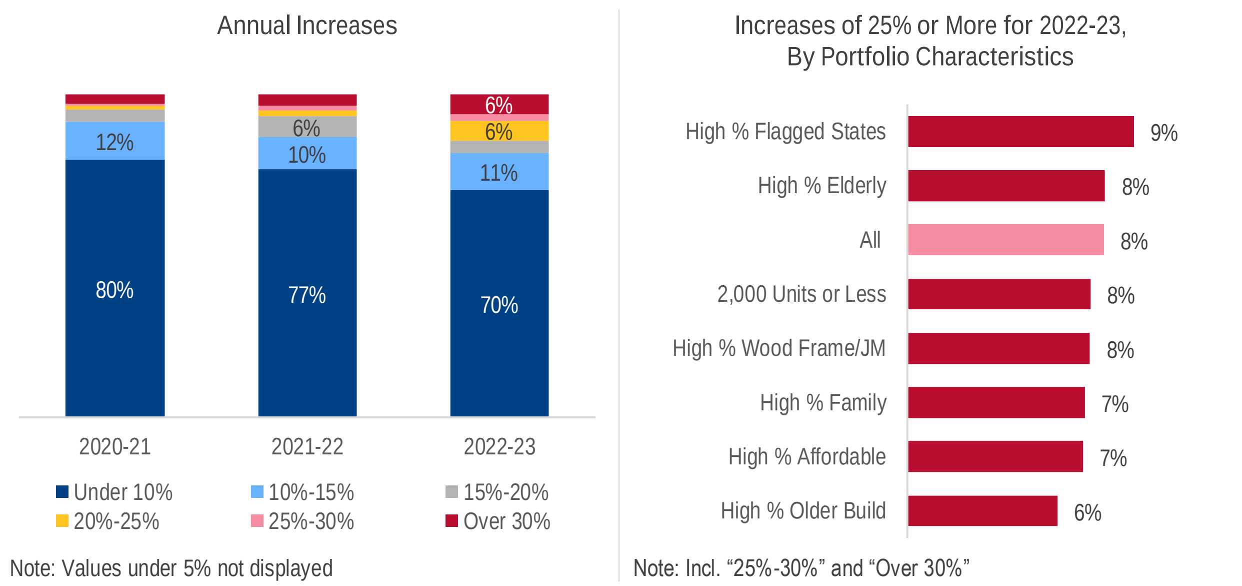


Note: Incl. "25%-30%" and "Over 30%"

SIR/Deductibles

SIR and deductibles for excess and umbrella liability insurance have increased less than policy premiums. The share of policies with annual deductible increases of 25% or more has risen from 4% for 2020-21 renewals to 8% for 2022-23. Rate increases of this magnitude were most common for housing providers with a high share of units in flagged states (California, Florida, Illinois, New York, and Texas): 9% of SIR/deductibles rose 25% or more for 2022-23 compared to 8% overall. (Figure 26)

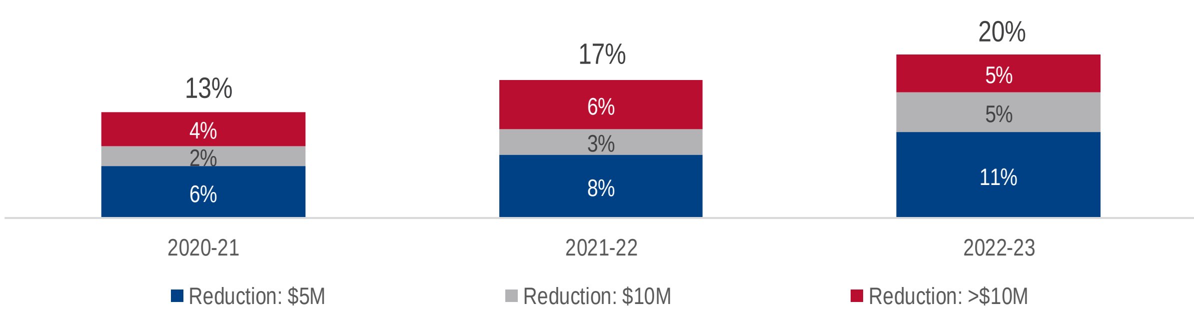
Figure 26.
Excess and Umbrella Liability Insurance: SIR/Deductibles



Reductions in Limits

Reductions in limits for excess and umbrella liability policies are becoming more widely adopted by housing providers but are still uncommon. Most recently, 20% of policies had reductions in limits, including 11% with reductions of $5 million and 10% with reductions of $10 million or more. (Figure 28)

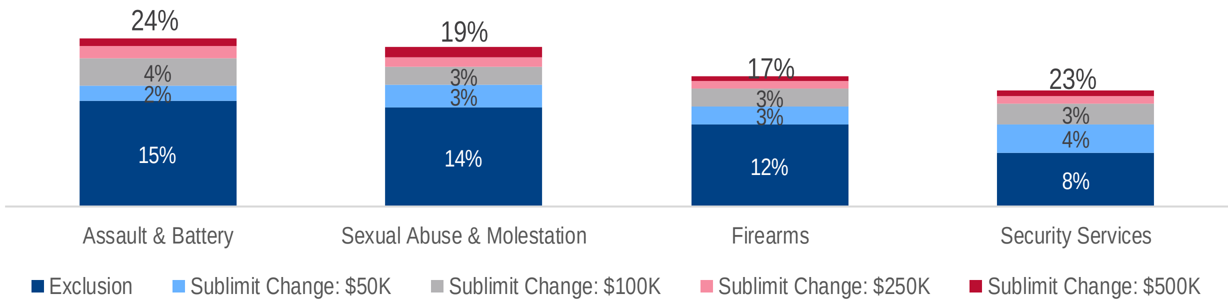
Figure 28.
Excess and Umbrella Liability Insurance: Reduction in Limits



Restrictions to Coverage

The most common change in restrictions to excess and umbrella liability coverage were related to assault and battery: 15% of policies had exclusions, 2% had sublimits change by $50,000, 4% had sublimits change by $100,000, and nearly 3% had sublimits change by $250,000 or more. (Figure 27)

Figure 27.
Excess and Umbrella Liability Insurance: Restrictions to Coverage

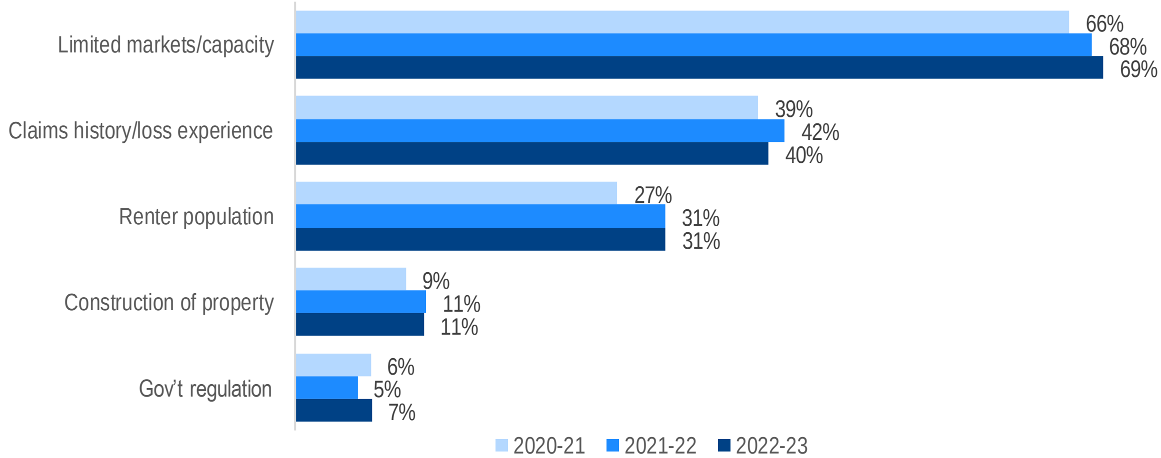


Note: Values under 2% not displayed

Rationale for Premium Increases

The rationale for rate increases has remained consistent over the past three years. Similar to other lines of insurance, limited markets and capacity is the top reason. For 2020-21, this drove in rate increases for 66% of policies and, two years later, 69% identified it as a primary reason. Claims history and loss experience was the second top factor, 40% identified this as a driver for increased premiums for 2022-23. (Figure 29)

Figure 29.
Excess and Umbrella Liability Insurance: Rationale for Premium Increases



Limited markets were the most common driver of higher premiums for policies held by housing providers with a high share of families as residents (72% compared to 69% overall). The second top reason for premium increases, claims history and loss experience, was most common for policies held by housing providers with a higher share of units in flagged states, including California, Florida, Illinois, New York, and Texas (42% compared to 40% overall). (Figure 30)

Figure 30.
Excess and Umbrella Liability Insurance: Rationale for 2022-23 Premium Increases, by Portfolio Characteristics