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Managing Insurance Costs and Coverages

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Increasing insurance premiums over the past few years in the insurance market has become challenging to many developers and property managers and they are finding it difficult to place coverage at an affordable cost. Novogradac 2023 Low-Income Housing Tax Credit Income and Operating Expenses Report showed property insurance expenses increased between 9.6% and 33.5% annually over the last few years from with the steep 33.5% increase occurring in 2021and a 22.2% increase in 2023. Premiums are expected to continue to rise in 2025 and most likely 2026, once insurance companies finalize the claims from the 2024 hurricane season.

This has been especially challenging in the affordable housing and multi-family housing market. These properties usually are not able to abruptly leverage the higher insurance premium cost by increasing rents.

In December 2024 HUD published a notice to update the Operating Cost Adjustment Factors (OCAFs) for eligible multifamily housing developments with project-based assistance contracts under the Section 8 program. HUD will use the year-to-year change in actual cost data from audited financial statements, as a way to get a more accurate view of the increases in insurance premiums and other operating expenses multifamily properties have been facing. According to HUD data, multifamily properties on average have seen their premium increases almost double over the last several years, with properties in higher risk areas like the Gulf and Atlantic coasts saw even larger increases.

Many factors contribute to the industry wide premium increases. Factors such as natural disasters have increased in both frequency and severity resulting in much higher costs to the carriers for settling. In addition to other uncontrollable market conditions such as labor costs, inflations, cost of goods, it has increased the loss ratios carrier have recently experienced. This has caused some insurance carriers to exit areas that have high losses, including the residential apartment market, bringing about significant premium increases and causing coverage hard to place. Some larger insurers such as Allstate, Farmers Insurance, the Hartford, Nationwide, State Farm and USAA have limited writing new policies in high-risk areas or limited their coverage over the past few years.

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Over the last several years many owners and managers have been moving to increase deductibles to mitigate these raises in premiums. According to the National Multifamily Housing Council's (NMHC's) 2023 report, nearly two-thirds (61 percent) of owners and managers of apartment properties surveyed had to increase the deductibles of the insurance plans to keep the cost of the insurance premiums cost effective. Additionally in the current insurance market some insurance carriers have deemed policies that include lower deductibles to be ineffective in the affordable and multi- family housing space. The market standards are increasing, and we are seeing more commonly carriers only willing to quote deductibles at $100,000 or more.

Along with increasing the deductibles on insurance policies many larger developers have started to implement a Self-Insured Retention (SIR) program. The SIR can provide a cost-effective method of reducing insurance premiums and claims costs. An SIR is a specific dollar amount in the insurance policy that must be paid by the owner before the insurance policy will respond to a loss. The SIR agreement requires that the owner to establish a reserve account to be in place to pay the losses the fall under the SIR amount.

As the insurance markets continue to fluctuate, owners and developers of affordable and multi-family housing must continue to look for ways to lower expenses, by increasing deductibles, using SIRs and finding other unique ways to mitigate risk.

Dawn Schumacher currently serves as Vice President, Insurance Manager and was promoted to Vice President, Insurance in 2022. She works with the Asset Managers to minimize risk to client tax credits through reviewing the insurance certificates to ensure they fulfill the partnership requirements. Her responsibilities include guidance and analysis of insurance certificates prior to funding and at construction completion, reviewing insurance certificates at annual renewal, maintaining insurance loss data, placing insurance coverage on special risk assets, and communicating with Asset Managers and General Partners to resolve Insurance issues. Prior to joining RBC in 2005, she worked with Capstone Realty Advisors, LLC as an Asset Manager, where she was responsible for managing real estate tax and insurance escrow accounts, MIP monitoring and insurance reviews of the HUD, Life and CMBS portfolios of over 400 commercial loans. Dawn earned her Bachelor of Business Administration from Cleveland State University and is a Housing Credit Certified Professional (HCCP).

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