IREM® From the Front Lines Podcast

irem.org/learning/from-the-front-lines

Episode 5.9

5/7/24 Release

Insurance Costs

Todd:

Welcome to another edition of From the Front Lines, where we discuss both the day-to-day, and one-of-a-kind issues facing real estate managers. In this episode, we talked to Mary Donovan with ndp | analytics about trends and property insurance costs, including where rates are rising and what's being done to contain them. Welcome to the podcast, Mary.

Mary:

Thanks, Todd. It's great to be here.

Todd:

Can you first introduce yourself and ndp | analytics?

Mary:

Absolutely. My name is Mary Donovan. I'm a principal and economist at ndp | analytics, and we're a strategic economic research firm based in Washington, D.C.

Todd:

Now, what's the overall picture on insurance costs? Where are rates going up and where are they holding steady?

Mary:

Oh, I think as you know, it's a really challenging environment, and in our research, we didn't see anywhere that was holding steady or even easing. But before I get into the details, let me give you a little bit of background on this research. In 2023, the National Lease Housing Association came to us. They were looking to better understand the magnitude of insurance increases impacting the industry. If you're not familiar with the association, they represent all major participants in the affordable multifamily housing space and our research was survey-based. It included nearly 420 housing providers who operate 2 points of 1,000,000 units across the United States including 1.7 affordable units, right. So we have a mix of portfolios here. And we asked these housing providers about their experience for policy renewals across 3 lines of insurance. We covered commercial property, premium general liability, excess and umbrella liability insurance. And we also asked about their experience over the past three years. So we could start to see what the trend looks like and across the board as I mentioned we're seeing more housing providers reporting higher annual renewals, what that looks like in the 2022-2023 renewal period, nearly 30% experience premium increases of 25% or more. For context, only 16% of housing providers reported that level of increase two years ago. And also, so that's, you know, we see a clear increase in that top level of rate increases, but we also see fewer reporting minimal increases, right. So we see it on the other end

as well. We asked about rate increases under 10%. That was fairly common in 2020, 41% of housing providers had that type of increase in their renewals. 2 years later, for 2022, that's decreased to only 1/4 of housing providers. And this is holds true across all lines of insurance. The areas where we've, we call them flag states in the research, it's California, Florida, Illinois, New York, and Texas. And these are states with particularly challenging insurance environments for housing providers that had portfolios concentrated in these state, they tended to have higher premiums. They more often increased their deductibles, and they also more often took reduction in limits. So the situation was even worse for housing providers in those states.

Todd:
What's driving insurance rates up in those markets where they're rising?

Mary:
Well, first of all, we confirmed that it's not because of increased coverage. In fact more and more housing providers are decreasing coverage. We saw about 1/3 indicate that they've decreased coverage for the 2022-2023 renewal period, and that's quite a bit higher than the two years prior where we saw less than 10% decrease in coverage in 2020. So to your question, you know, what's driving this increase across all lines of insurance, limited markets and capacity was the number one driver. You know what that means is that housing providers just don't have other options. In 2020, 2/3 indicated that this was a primary driver and their insurance increases. That's up from about 60% two years ago. And those states I mentioned before, California, Florida, Illinois, New York, Texas, this is an even greater issue there. There's been a lot in the news about insurers pulling out of California. The next most common issue is the claims history and loss experience, which is to be expected. And then also the renter population was a factor. About 28% indicated that this was a driver before the housing providers that had more affordable units in their portfolios. This was more common. And I think also as you would expect, when we're thinking about the different lines of insurance, we talked about the construction of the property was a top driver for commercial property insurance. That makes a lot of sense, more so than it was in the other lines.

Todd:
What differences in rates are you seeing among the property types?

Mary:
So in our research, we grouped housing providers based off of certain characteristics like the type of residents they served, the type of construction, and the size and location of their portfolios. As I just mentioned, you know the bill does make a difference depending on the line of insurance. Housing providers with wood frame or joisted masonry properties more often had higher premium increases for commercial property insurance. Those that had older builds, that's like before 1990, had higher premium increases for excess and umbrella liability insurance. When it comes to the renter population, we broke housing providers into groups based off of whether or not they primarily served families or elderly and across the board it was the housing providers that served more families that tended to see higher rate increases. And also as I mentioned before, those with more affordable units in their portfolios often reported higher premium increases than their counterparts. I think we, you know we'll talk about those locations again, but California, Florida, Illinois, New York, Texas, those flag states across the board, they're seeing higher premiums than the rest of the country.

Todd:
What can property managers do to lower their rates in the current insurance market?

Mary:
This is a really tough question. You know, housing providers broadly speaking operate on tight margins. The most recent National Apartment Association, they do a "Where does the dollar of rent go?" They've found that 93% of rental income goes towards covering expenses. So for a lot of housing providers, there's really not a lot of room to absorb higher cost. And what we've seen from past experience is that housing providers are increasing their insurance deductible, about 2/3 indicated they did this in 2022, and some are continuing to reduce their coverage to lower their costs. In addition to focusing on what you can do in insurance, the other option is mitigating costs and the rest of your operations. And what we saw there is that housing providers are trying to decrease their operating expenses where possible and also raising rent where they can. Another thing we're seeing here is that housing providers are decreasing or postponing investments and this has implications of its own. We know there is a housing supply crisis in this country. We're also seeing over half of housing providers decreasing or postponing investments, which has implications of its own. HUD estimates the housing shortage to be 3.5 or 3.2 million units, somewhere in that ballpark. And reducing investments lessens the extent to which housing providers are able to expand, right. So this is only contributing to a much greater housing problem in this country.

Todd:
Where do you see the insurance market heading in the next few years?

Mary:
So as I understand it, there's about a two year lag in insurance premiums and that's because of the time required to process the claims as well as the regulatory process for getting rate increases. So in other words, the rate increases we saw in 2022-2023 reflect the environment two years prior, right. So that's still the pandemic and while today that subsided, you know supply chain pressures have eased, there's still a high inflationary environment and that means that in the coming years the market will reflect today's economic environment. So if you think about the factors impacting costs now related to labor, materials and supplies, the liability landscape, all of this you'll expect to see in 2026 premiums. Moving forward, the Congressional Budget Office, CBO, their forecast kind of expects a return to a more stable, normal economic environment. That said, today's GDP figures came out were lower than expected. There's only 1.6% in Q1 this year and inflation remains higher than the target. So I think you know we'll still see challenges with insurance premiums in the next few years, but hoping that compared to the past it will ease.

Todd:
Thanks so much for joining us, Mary.

Mary:
Thank you, Todd. It's been a pleasure.

Todd:
Visit irem.org for more knowledge to take on real estate management's most dynamic challenges. That's www dot I R E M dot ORG.