Multifamily Economic and Market Commentary

Fannie Mae

MAY 2024

Higher Insurance Premiums Continue to Impact the Multifamily Sector

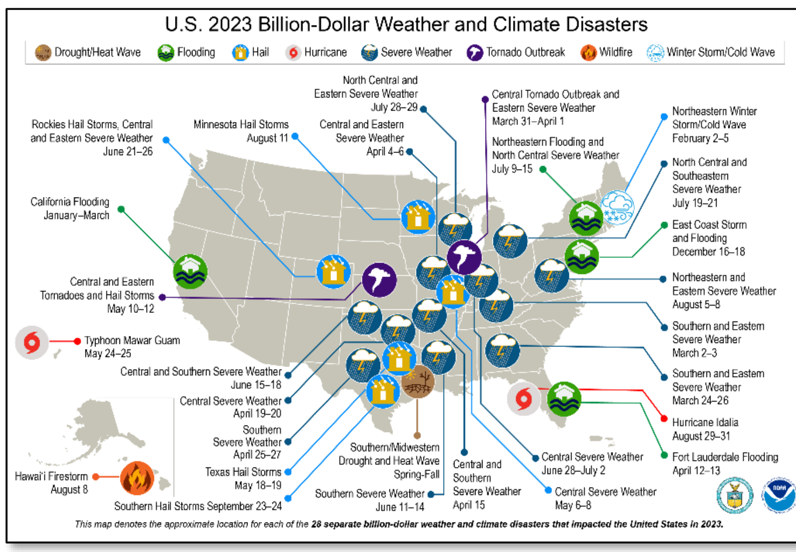
According to the National Centers for Environmental Information at the National Oceanic and Atmospheric Administration (NOAA NCEI), as of May 8, 2024, there have already been seven confirmed weather and climate disaster events in 2024 with losses exceeding $1 billion each. These events included five severe storm events and two winter storm events. In fact, from 1980 through May 8, 2024, the United States sustained 383 weather and climate disasters where damages and costs reached or exceeded $1 billion (adjusted for inflation to 2024). The total cost of these 383 events exceeds $2.72 trillion. Further, NOAA NCEI data show that the number of climate events resulting in at least $1 billion in damages has risen to an average of 20 per year since 2019, from 13 per year in the 2010s. As a result, multifamily property insurance costs rose significantly in recent years.

This is an additional cost pressure for most multifamily property owners but is particularly difficult for Federally Assisted Affordable properties with low rents, such as those built with Low Income Housing Tax Credits (LIHTC), to absorb.

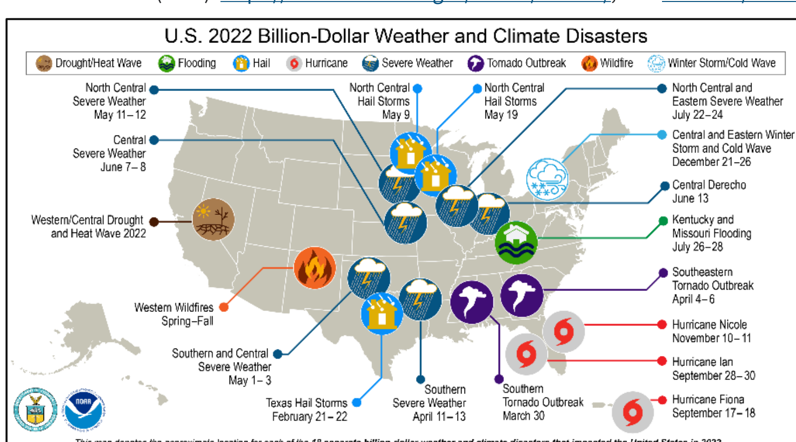
Recent Climate Events Impact Costs

As shown in the adjacent top map, there were 28 separate billion-dollar weather and climate disasters that impacted the U.S. in 2023. In fact, 2023 ranked first in terms of the number of climate-related events in excess of $1 billion (adjusted for inflation) since 1980. These events totaled $92.9 billion, including Fort Lauderdale flooding in April and Hurricane Idalia, which hit Florida in August 2023.

While 2022 only had 18 such events, as shown on the map to the right, they were more costly, totaling over $175 billion. Hurricane Ian in Florida inflicted damage totaling $112 billion, and severe drought and heat conditions impacting the Western and Central states cost $22.2 billion. Inflation has compounded costs as replacement and repair costs rise. Multifamily insurance premiums reflect these record costs.



NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). https://www.ncei.noaa.gov/access/billions/, DOI: 10.25921/stkw-7w73



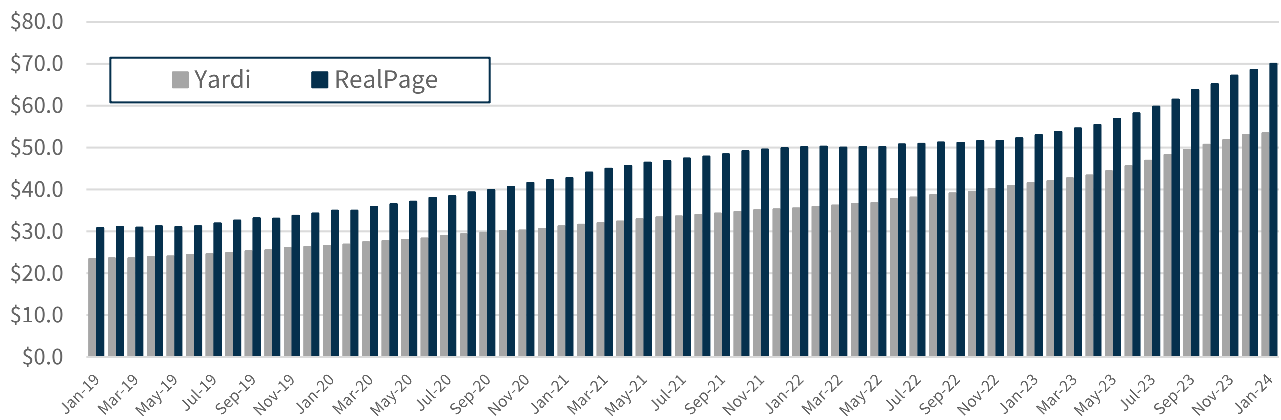
NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023). https://www.climate.gov/news-features/blogs/beyond-data/2022-us-billion-dollar-weather-and-climate-disasters-historical

Insurance Premiums Have Been Rising For Several Years

Third-party multifamily data vendors Yardi Matrix and RealPage track insurance costs. Yardi data is sourced from properties with 50 units or more, while RealPage data also includes properties with 5-49 units. As shown in the chart below, both Yardi Matrix and RealPage indicate that multifamily property insurance premiums have increased quite a bit over the past 12 months. According to Yardi Matrix, in December 2018, the monthly premium per unit per month based on a trailing 12-month average was about $23 per month or $280 per year annualized. By December 2022, just four years later, that average cost had increased to about $41 per month or $490 annualized, representing a 75% increase in just four years.

RealPage data shows somewhat higher premiums but similar trends, with a December 2022 monthly per unit premium of about $52 or $625 annualized, up 71% from December 2018's premium of nearly $31 or $365 annualized.

Monthly Insurance Premiums Per Unit ($) January 2018 – January 2024 (Trailing 12-Month)

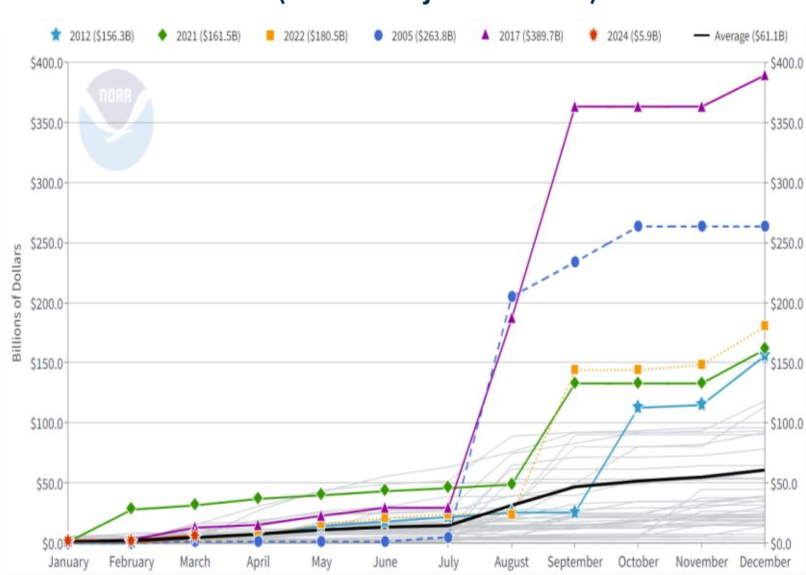


Source: Yardi Matrix, RealPage

2023 Insurance Costs Reflected a Record 2022

While inflation in replacement costs and the reinsurance market impact growth of insurance premiums, high-cost climate disaster events also play a role. As shown in the adjacent chart, 2022 was the third-most expensive year on record for climate disaster costs, only behind 2017 and 2005 according to NOAA NCEI. Insurance premiums rose accordingly in 2023. Yardi Matrix data reflected a cost of $53.50 per unit per month in January 2024 based on a trailing 12-month average (or $640 annualized). This represented an increase of 31% in a single year. Similarly, RealPage data show an increase of 32% based on a $70 premium per unit per month (or $840 annualized).

1980-2024 United States Billion-Dollar Disaster Year-to-Date Event Cost (Inflation Adjusted to 2024)



NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024).

Hurricanes Produce Double Digit Insurance Premium Increases in Florida

According to NOAA NCEI, Florida has experienced eight hurricanes/tropical storms over the past five years with a cost of $1 billion dollars or more, including Hurricanes Idalia, Nicole, Ian, Fred, Elsa, Eta, Sally, and Michael. While Hurricane Idalia recorded an inflation-adjusted cost of $3.5 billion in 2024 dollars, 2022's Category 5 Hurricane Ian cost $117 billion when adjusted for inflation. Accordingly, there has been a significant increase in property insurance premiums in Florida. For example, as shown below, Yardi Matrix shows a trailing 12-month average monthly premium in **Fort Lauderdale** as of January 2024 of $119 per unit per month (or $1,430 annualized). This is a 53% increase year over year. RealPage data shows an even higher premium of $147 per month (or $1,765 annualized).

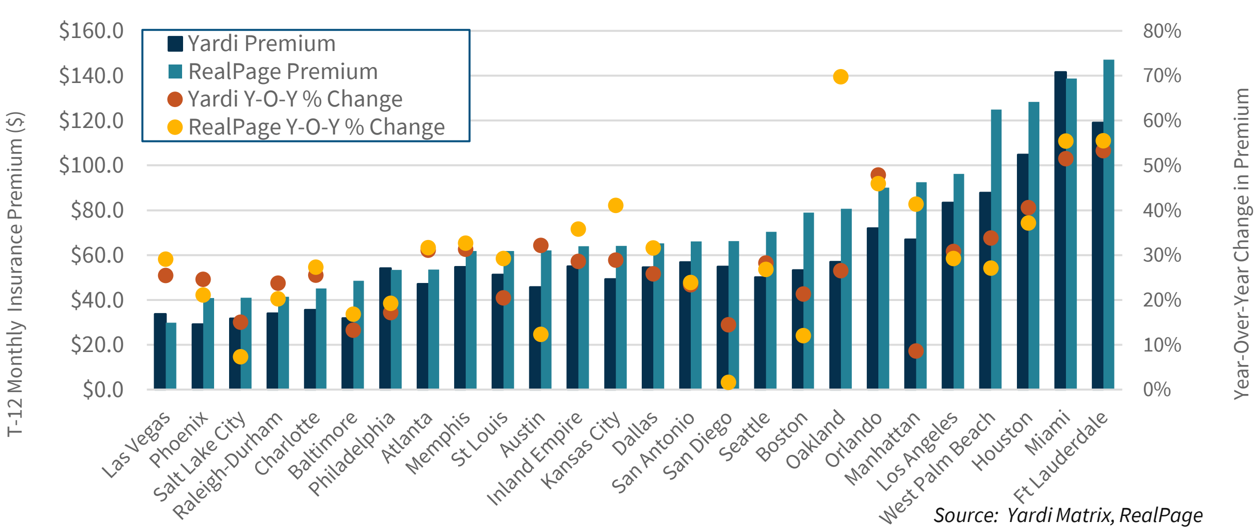
Texas Also Impacted

While the costliest climate event to impact Texas since 2017 was Hurricane Harvey with an estimated inflation adjusted cost of $158 billion, NOAA NCEI has recorded many other climate events in recent years. Among these were hailstorms in 2023 with an impact on Austin and parts of Dallas, as well as a deep freeze in 2021 that caused property damage in many Texas metros. As a result, multifamily properties in Texas have also seen a large increase in premiums. As shown in the chart below, Yardi Matrix estimates a 41% increase in insurance premiums for **Houston** to nearly $105 per unit per month as of January 2024 (or $1,260 annualized). RealPage shows an even higher premium of $128 per unit per month (or $1,540 annualized).

California Wildfires and Atmospheric Rivers Also Increased Premiums

Between late December 2022 and March 2023, California experienced numerous atmospheric rivers in continuous succession that caused severe flooding, record snowfall, and substantial rainfall, after wildfires in 2022 had also caused substantial damage. Both Yardi Matrix and RealPage data show year-over-year increases of about 30% in **Los Angeles** monthly property insurance premiums as of January 2024. Yardi Matrix estimates an $83 per month per unit premium (or $1,000 annualized). Similarly, RealPage shows a premium of nearly $97 per unit per month (or $1,160 annualized). Metro areas that have not had significant property damage due to climate disasters have fared only somewhat better, with many still recently experiencing double-digit increases, as shown in the chart below.

Monthly Insurance Premiums Per Unit ($) and Year-Over-Year Change in Premium (%) as of January 2024



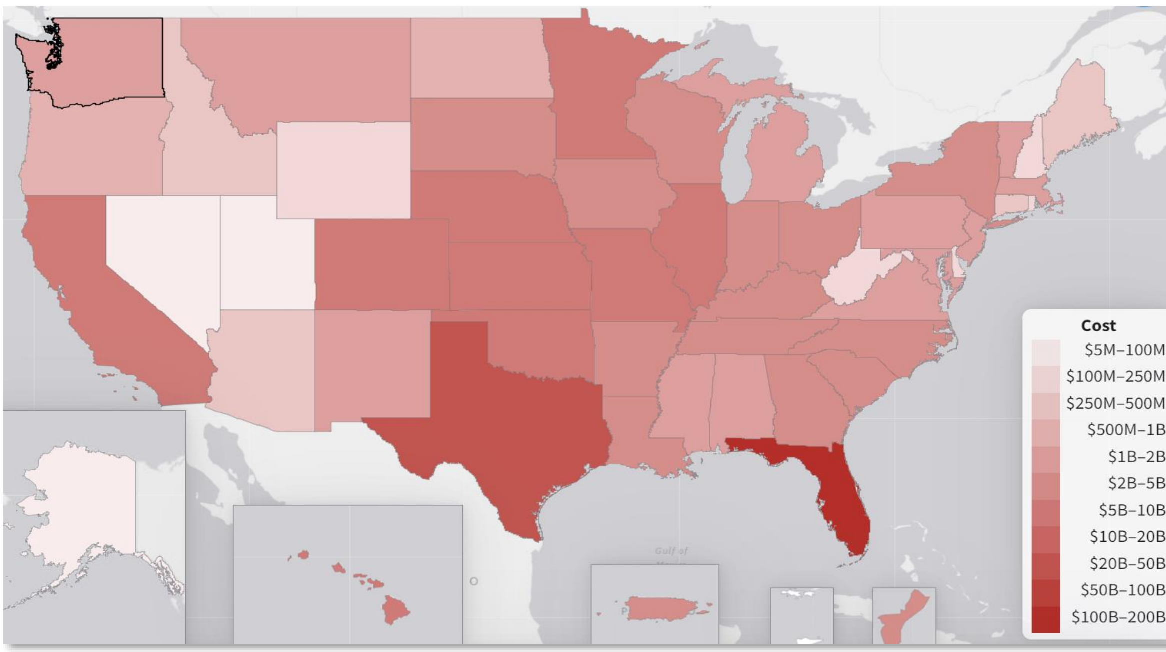
Source: Yardi Matrix, RealPage

Notes: There may be differences in geographical definitions in the data for Yardi and Real Page for some metros. Premiums for Yardi based on North Dallas, Manhattan, Metro Los Angeles, East Houston and Urban Philadelphia. Trailing 12-month costs.

Metros With Lower Insurance Premiums Still Saw Increases

As shown in the chart on the previous page, Yardi Matrix reported multifamily property insurance premiums for **Las Vegas** of about $34 per unit per month on a trailing 12-month basis as of January 2024 (or about $400 per year). RealPage data was slightly lower at nearly $30 per month (or $360 per unit per year). Similarly, Yardi Matrix recorded a monthly per unit premium of $29 for **Phoenix** (or an estimated $350 per year). While RealPage's January 2024 estimate was higher at $40 per unit per month (or $480 per year), it remained well below the average monthly per unit premiums in disaster-impacted states like Florida, Texas, and California. In addition, both Yardi Matrix and RealPage report **Indianapolis** multifamily property insurance premiums of about $45 per unit per month (or around $540 per year.)

2022-2024 Billion-Dollar Weather and Climate Disaster Cost (Inflation Adjusted)



NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024).

Insurers Spread the Pain of Double-Digit Premium Increases Across the Country

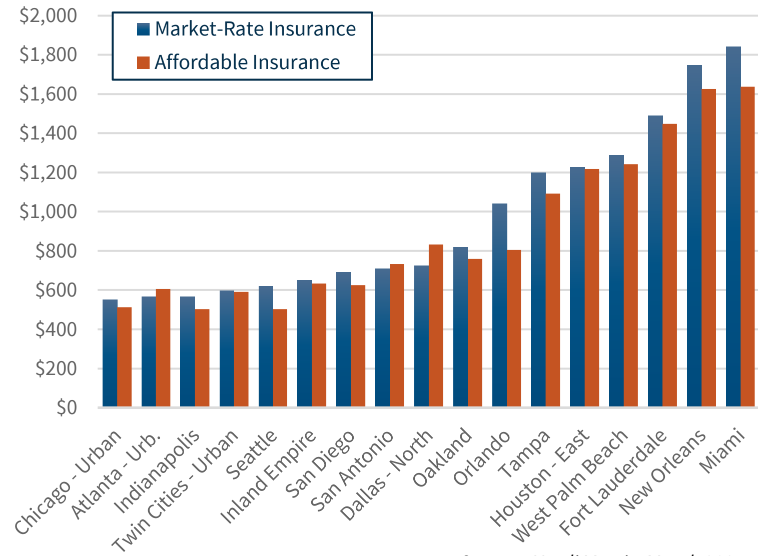
As shown in the map above, from 2022-2024, Florida and Texas incurred the costliest natural disasters by far. However, while **Indianapolis**, **Phoenix**, and **Las Vegas** still have less expensive property insurance premiums than some other states, they have not been immune from recent double-digit premium increases. The NOAA NCEI reported Indiana experienced 12 severe storms and one winter storm between 2022 and 2024 that were $1 billion or more disaster events. As a result, the estimated $45 per unit per month premium for Indianapolis is still about 26% higher year over year, as of January 2024.

While Arizona and Nevada experienced drought and extreme heat over the past several years, this did not result in high-cost damages, as shown in the map above. In fact, Arizona had some of the lowest cost damage resulting from natural disasters. Nevertheless, **Las Vegas** and **Phoenix** still experienced double-digit insurance premium increases of 21% or more in January 2024, likely due to insurers trying to recoup the high cost of natural disasters elsewhere. Indeed, virtually every state experienced at least $100 million in natural disaster-related costs between January 2022 and January 2024.

Little Premium Difference Between Market Rate and Affordable Properties

As shown in the adjacent chart, the cost of insurance policies at Federally Assisted (Affordable) multifamily properties, such as those assisted with LIHTC, is about the same as at market-rate properties. For instance, the insurance premium in **Urban Atlanta**, **Chicago**, and the **Twin Cities** runs between $500 and $600 per unit per year for both market-rate and Affordable properties. As with market-rate properties, the annual property insurance premium remains at less than $600 per unit at Affordable properties in many markets that are not prone to natural disasters, such as **Seattle** and **Indianapolis.**

Multifamily 12-Month Insurance Premiums Per Unit Select Markets



Source: Yardi Matrix, March 2024

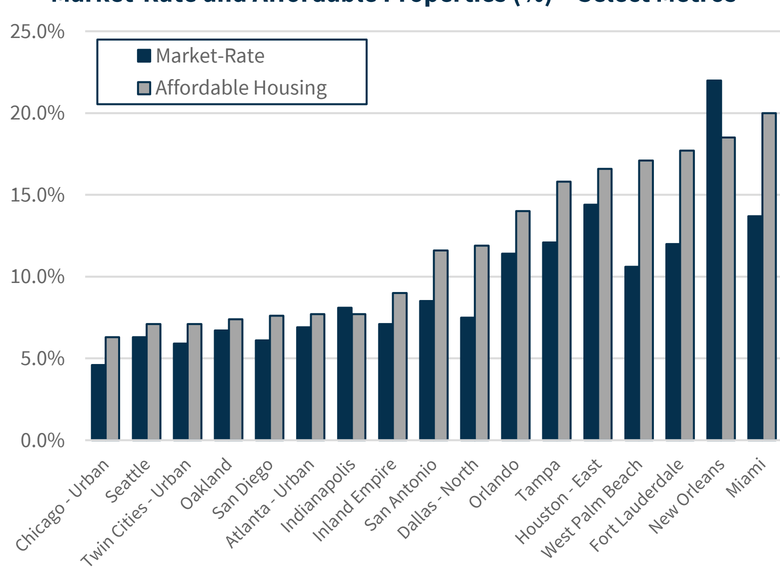
Higher Premiums for Properties in Disaster-Prone Markets

Both market rate and Affordable multifamily properties have higher insurance premiums in markets with frequent natural disasters. For instance, according to Yardi Matrix, in the **East Houston** submarket, property insurance is just above $1,200 per unit per year for market-rate and Affordable units. In **Fort Lauderdale**, property insurance is just under $1,490 per unit on average for both segments, and in **New Orleans**, it is above $1,600 for both. These premiums are more than double the premiums in areas that are not prone to natural disasters.

Insurance Costs are a Larger Part of Expense at Affordable Properties

As shown in the adjacent chart, property insurance costs at Affordable multifamily properties make up a larger share of operating expenses than at market-rate properties in most metros. This is the case even in those metros that are not prone to natural disasters. For instance, in the **Urban Chicago** submarket, property insurance premiums make up 4.6% of operating expense at conventional multifamily properties but 6.3% at Affordable properties. Insurance premiums are 6.3% of expenditures for market-rate properties in **Seattle** but 7.1% for Affordable properties.

Insurance Premium Share of Total Expense for Multifamily Market-Rate and Affordable Properties (%) – Select Metros

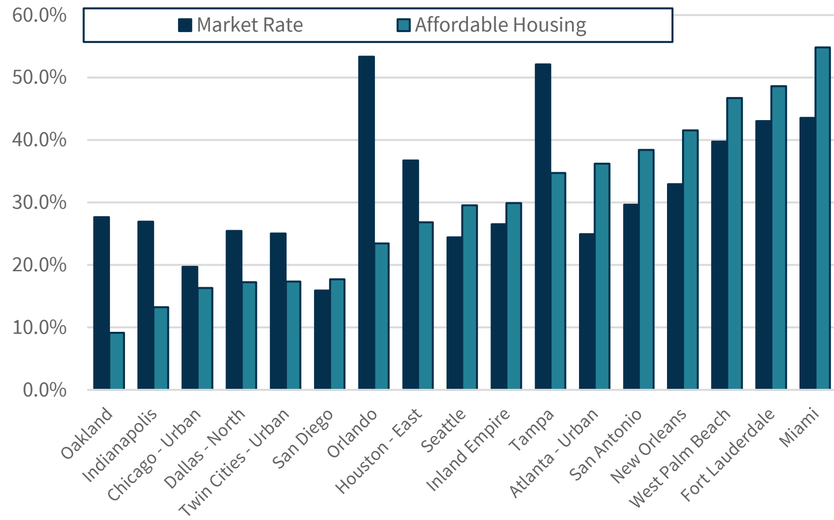


Source: Yardi Matrix, January 2024

Affordable Properties Also Experiencing Double-Digit Increases

For instance, multifamily property insurance premiums in the **Twin Cities Urban** submarket represent an estimated 5.9% of total expenses at market-rate multifamily properties and 7.1% at Affordable properties. As shown in the adjacent chart, both property types saw increases above 17% in property insurance premiums year over year as of January 2024 to just under $600 per unit per year.

Year-Over-Year Increase in Insurance Premiums for Multifamily Market Rate and Affordable Properties (%) – Select Metros



Source: Yardi Matrix, January 2024

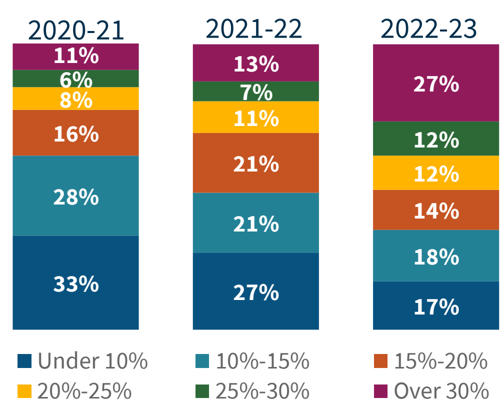
Insurance premium increases can be even higher in areas prone to natural disasters. For instance, insurance premiums account for an estimated 13.7% of expenses at market-rate multifamily properties in **Miami** but are 20% of total expense at Affordable properties. Both property types saw premiums increase by more than 43% year over year as of January 2024 to over $1,600 per unit per year. In **Tampa**, insurance premiums account for an estimated 12.1% of expenses at market-rate multifamily properties but are nearly 16% of total expense at Affordable properties. Both property types saw property insurance premiums increase by over 34% year over year as of January 2024 to over $1,100 per unit per year.

Study Confirms Double-Digit increases for Affordable Multifamily

While RealPage does not break out data for Affordable multifamily properties, NDP Analytics, an economic consulting firm, conducted a 2023 survey on changes in housing providers' insurance premiums for 2020, 2021, and 2022 policy renewals.

NDP Analytics received 418 responses from Affordable housing providers who, in total, operate approximately 2.7 million housing units across the U.S. Its resulting October 2023 report, *Increased Insurance Costs for Affordable Housing Providers,* confirms that many Affordable properties have recently received double-digit insurance premium rate hikes. As shown in the adjacent chart, for renewals taking place from 2022-2023, 83% of respondents reported receiving double-digit rate hikes and 39% of respondents reported having properties with increases of 25% or more. This is more than double the 17% of respondents that reported receiving increases of 25% or more just two years ago.

Property Insurance Premium Increases



Source: NDP Analytics, Increased Insurance Costs for Affordable Housing Providers (2023)

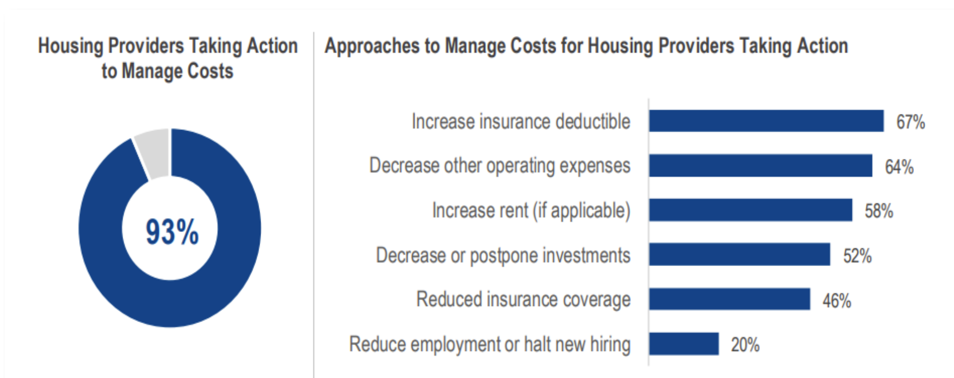
Affordable Properties Offer Affordable Rents

Unlike market-rate multifamily properties, which saw double-digit rent growth in many markets in 2021, rent growth at Affordable properties is typically much more moderate. Nationwide, the average rent at Affordable properties is just 59% of market-rate rent, according to data from Moody's CRE, and Affordable properties have limited ability to raise rents to cover these additional insurance costs because maximum rents are set annually by the U.S. Department of Housing and Urban Development (HUD). They must also look for other ways to reduce premiums. As shown in the chart below, 93% of housing providers in the NDP Analytics study were taking some action to manage costs, including decreasing other operating expenses, reducing employment, or holding off on new hiring.

Some respondents indicated that they may decrease or postpone capital investments or improvements.

Finally, others take actions that impact the level of coverage, such as increasing the insurance deductible or even reducing insurance coverage.

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



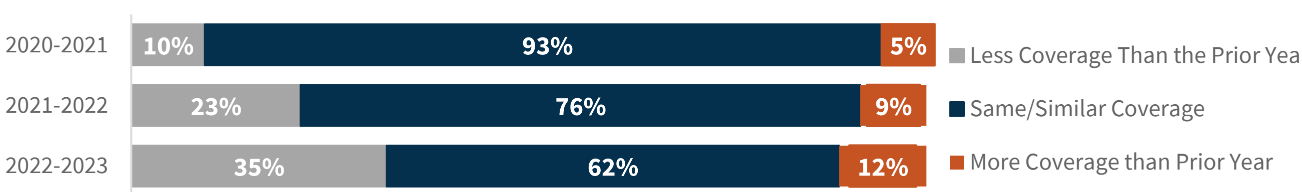
Source: NDP Analytics, Increased Insurance Costs for Affordable Housing Providers (2023)

Reduction in Coverage Levels

NDP Analytics' survey results show that many housing providers are accepting less insurance coverage. As shown in the chart below, for the 2020-21 policy year, 93% of commercial property policies renewed with the same or similar coverage, and only 10% decreased coverage from the prior year. In contrast, for 2022-23 renewals, only 62 percent continued with the same or similar levels of coverage, and nearly 35 percent decreased coverage compared to the prior year.

Another factor contributing to the decline in coverage levels is that some reinsurers pulled back in certain markets in recent years, providing less insurance overall to the multifamily market, according to Marsh McLennan, a global third-party insurance broker.

Property Insurance: Level of Coverage for Policy Renewals



Source: NDP Analytics, Increased Insurance Costs for Affordable Housing Providers (2023)

Potential Improvement in 2024

According to Marsh McLennan's *2024 Commercial Property Trends* report, property owners and operators still find themselves at a crossroads in early 2024, grappling with high-magnitude catastrophe losses, the enduring challenges of the pandemic on the supply chain, fluctuations in the employment market, and elevated inflation. Nevertheless, the report finds that, despite these challenges, the market shows signs of increased stability for the first time in six years. The report finds that there is modest growth in investment and capital because many reinsurers are expanding their risk appetite once more and many insurers are expanding their underwriting appetite. Nevertheless, the report finds that those commercial property owners with significant exposures and sustained losses can still expect to experience rate hikes of 50% or even higher in 2024.

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