The Multifamily Insurance Crisis: Causes, and Solutions

As we navigate the current operating environment, a discussion of the dramatic escalation in property insurance costs and the path forward:

2017 Turning Point

Prior to 2017, multifamily property insurance costs remained relatively predictable, with modest annual increases tracking inflation. That stability ended abruptly. Beginning in 2017, insurance premiums rose continuously for 27 consecutive quarters—an unprecedented period of sustained escalation that threatens property financial viability across all segments.

Federal Reserve research reveals average annual insurance costs per unit surged from $468 in 2019 to $816 in 2024.

Root Causes: A Convergence of Factors

- Natural Disasters: In 2023 alone, NOAA recorded 28 separate billion-dollar-plus weather disasters totaling $92.9 billion in damages.

- Reinsurance Contraction: Major carriers have exited markets or dramatically reduced exposure. These exits reduce competition and concentrate remaining risk.

- Social Inflation: Rising litigation costs, third-party funding, and "nuclear verdicts" force insurers to increase reserves dramatically.

- Construction Costs: Replacement valuations have soared. Higher replacement costs directly translate to higher premiums.

- Aging Inventory: Older properties with outdated systems face heightened underwriter scrutiny. Some insurers decline coverage entirely for properties with specific infrastructure deficiencies.

Beyond Premium Increases: Coverage Erosion

Survey data reveals troubling trends beyond cost, in the form of increased deductibles, new policy limitations, coverage reductions, and exclusions.

Current Market: Q3 2025

Property Insurance: Premiums remain elevated, but rate acceleration has moderated significantly. **Liability Insurance**: This segment continues deteriorating. Primary liability renewals are projected up 10-20%, and umbrella coverage 10-15%. Crime scores and urban property risks drive underwriter scrutiny. **Geographic Risk**: Recent catastrophes (LA wildfires, Gulf hurricanes) will trigger another wave of increases as insurers process claims. Catastrophe-prone regions face persistent pressure.

Solutions

Immediate Actions

- Systems Upgrades: Modern electrical, sprinkler, and roofing systems may secure premium reductions.

- Mitigate Tenant-Caused Damage: If you own 2000 units or more, look into a TLL Captive (see below). Under 2000, be vigilant on requiring renters insurance. One survey indicated 84% of owners require it. But the actual compliance rate is around 48%. Add the property as "Additional Insured" to prevent "sign and ditch," the main method of non-compliance.

- Competitive Shopping: Engage multiple brokers and carriers annually. We have experienced tremendous benefits from simply shopping relentlessly.

Risk Retention, Pooling and Captive Solutions

- Risk Retention: This involves buying commercial coverage only for catastrophic events and self-funding smaller claims. You are essentially arbitraging the gap between the cost of traditional policy limits and catastrophic limits. The sum of the self-funded claims should be less than the difference in premium costs.
- Captives: Groups form licensed insurance companies to share risk, retaining underwriting profits and investment income. For a “group captive,” it requires around 1,500 units to be viable. A standalone captive requires around 5,000 units. A tenant legal liability (TLL) captive implemented on a B or better class property can both

mitigate tenant-specific risk and generate net revenue. Captive providers to consult include POPIC, ACM, RLL and Foxen.

- Risk Pooling: Risk pooling involves multiple property owners with similar risk profiles forming collaborative arrangements to share insurance costs and losses. A captive is a form of risk pooling. But risk pooling does not always involve a captive.
- Risk Retention Groups: Currently permitted only for liability coverage.
- Portfolio Programs: Large operators can negotiate master policies, achieving economies of scale and flattening market distortions.

Policy Solutions We Should Advocate

The market can be improved with several public policy interventions.

- Federal Backstop: Modeled on the Terrorism Risk Insurance Act, the government acts as a reinsurer for property/casualty insurance, stabilizing markets during extreme loss years.
- State Risk Pools: Florida's Citizens Property Insurance Corp. provides a template—nonprofit insurers of last resort funded through premiums, securities, and bonds.
- HUD Adjustments: HUD recently increased maximum deductibles from $250,000 to $475,000 for wind/storm events. Additional Operating Cost Adjustment Factor reforms could help subsidized properties.
- NFIP Reform: Expanding coverage limits and creating separate Increased Cost of Compliance coverage to $500,000 for multifamily would address critical gaps.

Strategic Implications

This crisis signals a fundamental repricing of climate, litigation, and operational risk in multifamily real estate. *Operators must integrate insurance considerations earlier and with greater weight in acquisition and development underwriting,* with sophisticated scenario analysis. Properties in high-risk geographies face potential obsolescence unless resilience investments meaningfully reduce risk profiles.

The industry's ability to secure policy solutions will substantially determine whether multifamily housing remains financially viable in catastrophe-prone markets. Active engagement with trade associations and regulators is essential.

Looking Ahead

While there has been recent stabilization, the path remains uncertain. Recent catastrophic losses will test current pricing. Liability insurance continues deteriorating with no clear stabilization.

Success requires combining property-level risk management, creative insurance procurement including pooling strategies, and sustained advocacy for policy solutions that restore market balance.

I welcome your thoughts as we navigate these challenges. For those interested in exploring insurance and other asset management solutions, we are here to help.

Best regards,

Chris

This analysis reflects conditions as of Q3 2025, incorporating Federal Reserve research, NMHC surveys, and industry data. Stakeholders should consult qualified insurance advisors for property-specific guidance.

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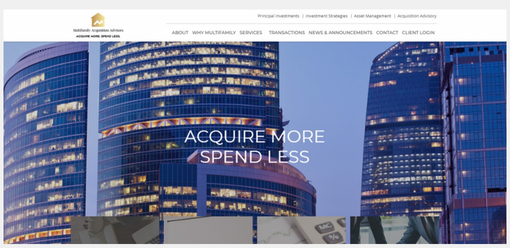

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