



NATIONAL
**MULTIFAMILY
HOUSING**
COUNCIL

2023 State of Multifamily Risk Results - *Documenting Insurance Market Volatility*

June 6, 2023

Webinar Information

- To ensure good sound quality, all attendees will be muted during the webinar.
- This webinar will be recorded and posted to NMHC.org.
- Please submit all questions to the chat box throughout the broadcast.
- The full report can be found at <https://www.nmhc.org/insurance-report>

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Mission Statement

NMHC is the place where the leaders of the apartment industry come together to guide their future success. With the industry's most prominent and creative leaders at the helm, NMHC provides a forum for insight, advocacy and action that enable both members and the communities they build to thrive. Learn more at nmhc.org

Speaker: Introduction



Sharon Wilson Géno
NMHC

Speaker: Survey Results



Caitlin Sugrue Walter
NMHC

SURVEY RESULTS

JUNE 2023

NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

STATE OF MULTIFAMILY RISK

with analysis from **FHS** RISK MANAGEMENT

SURVEY & REPORT

Responses

Launched in February 2023, the Multifamily Risk Survey received

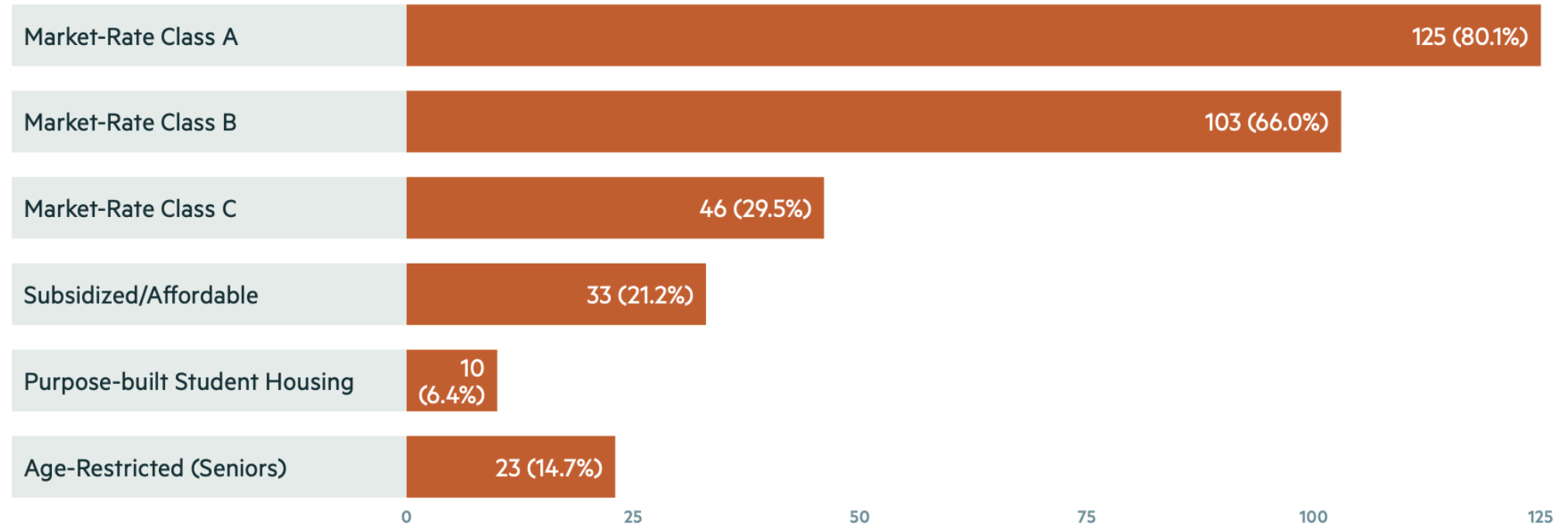
160 individual responses

representing apartment firms of varying portfolio sizes and property types across all geographic regions.

Property Types Covered

What type of multifamily units/properties do you have in your portfolio? Select all that apply.

OF RESPONDENTS: 156



Company Information

How many apartment units (rented units in structures with five or more units) does your firm own?

OF RESPONDENTS: 139

Average	11,292
Median	5,337
Sum	1,569,534

How many apartment units (rented in units with structures with five or more units) does your firm manage?

OF RESPONDENTS: 81

Average	18,973
Median	6,500
Sum	1,536,842

Survey Categories

- Company Information
- General Risk Management Questions
- Renters Insurance
- Alternative Risk Financing
- Insurance Coverage Information
- Claims
- Catastrophes/Natural Disasters
- Construction
- Total Cost of Risk

Speakers: Panel Discussion



Paul Boatman
Prometheus



Michael Power
FHS Risk
Management

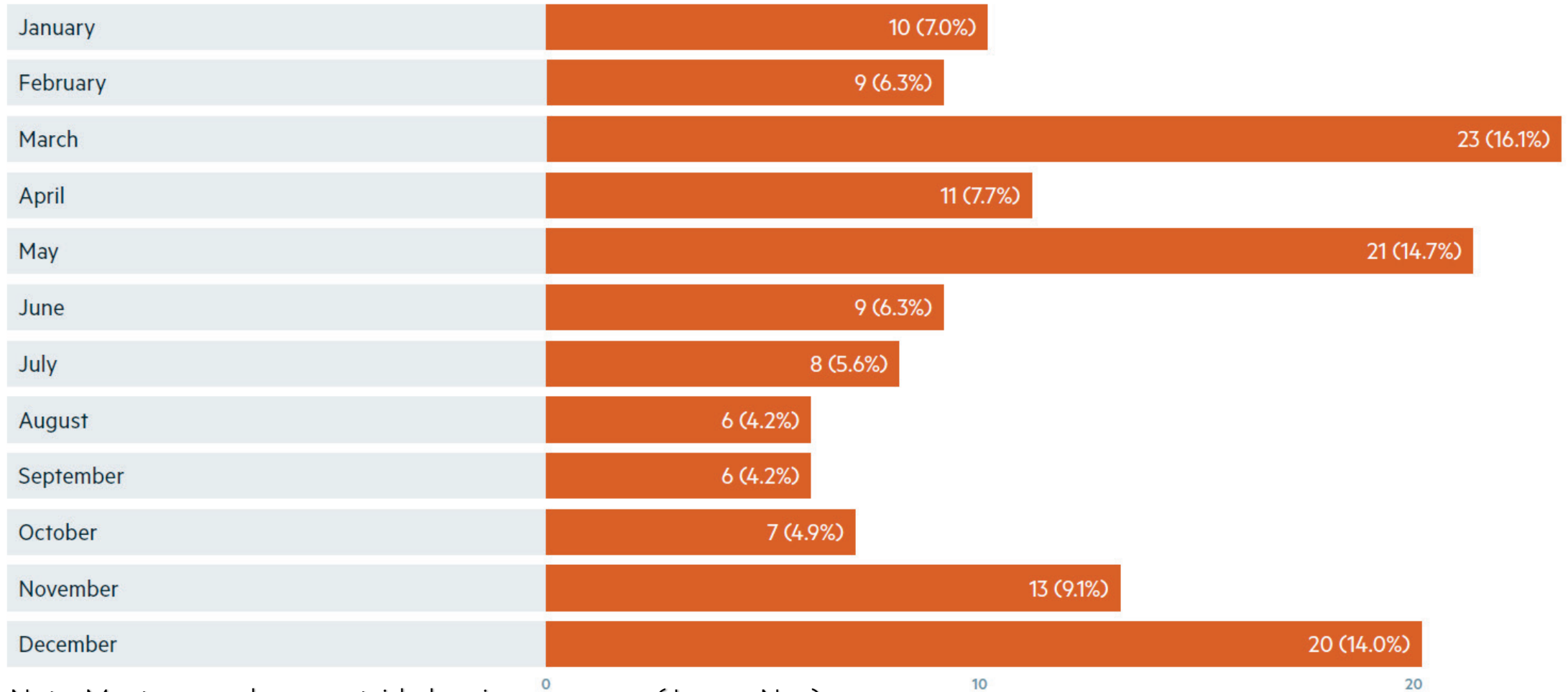


Kevin Donnelly
NMHC



Caitlin Walter
NMHC

Renewal Timelines



Note: Most renewals are outside hurricane season (June – Nov)

Analysis

The following key factors are driving higher prices & lower coverage:

1. The impact of rising inflation on construction and labor costs. Driving up replacement costs.
2. Depleted insurance market capacity
3. Frequency and Severity of Catastrophe (CAT) events – Hurricanes, Sunbelt Freezes, wildfires
4. Historical changes in the Reinsurance Market

Inflation & Replacement Cost

General Inflation Factors

- Construction & Rebuild costs rising significantly
- Increase in Construction Material Prices
- Increase in other Construction inputs: Fuel, Machinery, Transportation
- Increase in Labor Costs

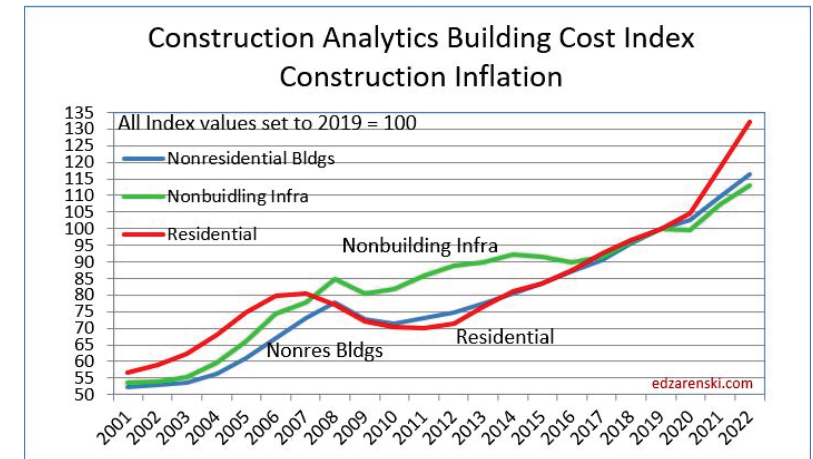
Insurers are monitoring, have paid claims and are fully aware of inflation factors impacting replacement costs +5%-20%

The ripple effect of rising inflation's impact on replacement cost methodology and impact to premium costs

Determining Methodology

- Desktop Valuations: Marshall & Swift, Core Logic, National Building Cost Manual
- 3rd Party Appraisals
- Internal Construction Teams
- Adding Inflation Factor Yr. over Yr.

You must have a strategy to the conversation with insurers and a defensible methodology to developing your values



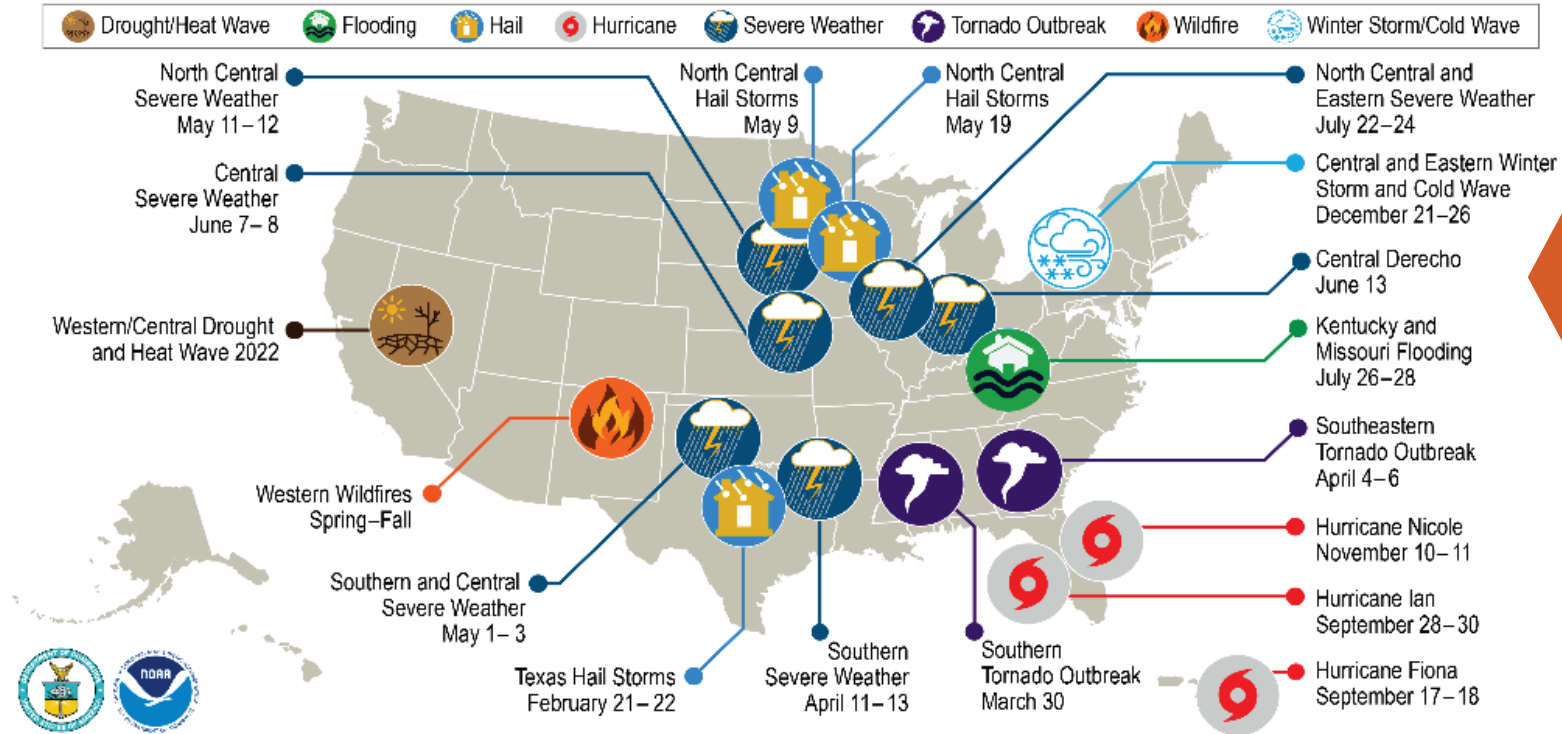
Source for Inflation Data – Edzarenski.com - Construction Inflation 2022

CoreLogic – Average RCV Per Square Foot						
Construction Type	Wood Frame Garden		Podium		Highrise	
City	Low	High	Low	High	Low	High
New York	190	300	190	300	300	460
California	190	250	200	260	310	410
Illinois	230	230	230	230	350	350
Colorado	170	180	160	170	260	270
Florida	140	150	150	160	250	260
Georgia	140	140	140	140	250	250
Texas	140	140	150	150	240	250
N. Carolina	130	130	130	140	220	230

Source for Valuation Data in Chart Above: NMHC – “Navigating a Volatile Multifamily Insurance Market at Renewal. Dec 1 2022”

Market Capacity Constraints

U.S. 2022 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.

Ongoing reduction of capacity, limits and rising costs

- Reinsurance renewals saw 30-60% pricing increases when considering rate and exposure
- Current expectations are for 1/1/23 pricing trends to persist for remainder of 2023
- Impact of climate change on the frequency and severity of events, especially Named Storms (Ian was the last straw)
- Estimated \$20B capacity deficit when compared to the anticipated demand from direct writers

Improve Insurance Renewal Outcome

Your Data Quality has an Impact on Premiums

Data Quality & Underwriting Data

- Location of the asset(s) – Heavy concentration in Coastal or CAT prone areas
- Construction type: Wood frame (Garden or Podium), JM or Fire Resistive
- Protection of the assets, Sprinkler / non-sprinklered
- Historical Asset Losses



Catastrophic prone locations are going to drive more premium costs for limits

Insurance Impact

- Policy Rate x Total Insurable Values (TIV)
- CAT Modeling Output on 250yr/500yr
- Lender Requirements on Modeling impact
- Limit Purchasing and costs to acquire
- Carrier PML drivers
- Claims Escalation

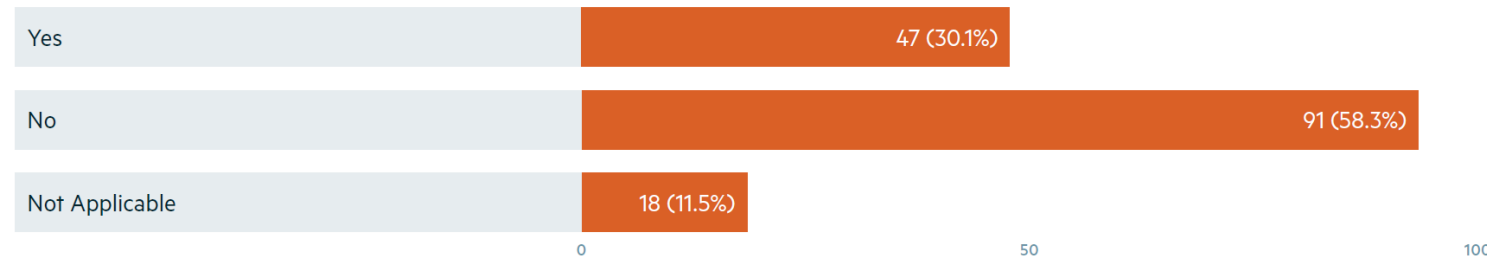
Accurate valuation is critical for determining all the above, carrier appetite, capacity viability, and premium allocation

Data Quality & Impact on Premiums

- Insurer often assume the worst – don't let them
- Improving data quality (year built, latitude/longitude, roof age, flood elevation, etc.,) can drive down results and improve costs
- Identify and prioritize cost drivers, missing data, and engineering issues that may impact the valuation process
- Validate business interruption values and methodology to ensure they are reasonable and appropriate

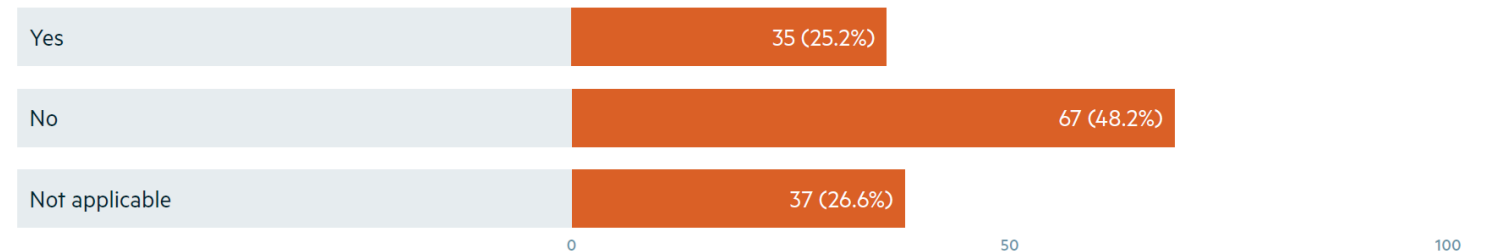
Do you use Risk Modeling Software (RMS) or other modeling software?

OF RESPONDENTS: 156



Do you collect secondary characteristics for Earthquake (EQ) and wind coverage?

OF RESPONDENTS: 139



Risk Management & Claim Prevention

Risk Management

- Invest in an overall risk management strategy to outperform the market
- Work with a capable broker and explore all options
- Meet with and develop direct relationships with underwriters and wholesalers
- Develop an active and robust claims management & loss prevention
 - Capex Investments & Preventative Maintenance
 - Leak/water Detection / Fire prevention device / Flood gates
- Consider larger retentions, self insurance mechanisms, captives/alternate structures, parametric products, and/or bi-furcation of assets within varying insurance programs
- Review your Policy Loss Limit, CAT Limits and Sub-limits in the programs
- Expand market outreach to the global market – No stone left un-turned
- Implement or improve contractual risk transfer opportunities – Make other parties pay for claims they caused
- Control risk – Leak detection, fire suppression (fireman in a can, stove tops)

Water Damage is the #1 Cause of Loss

What are your most frequent type of claims? (Select all that apply)

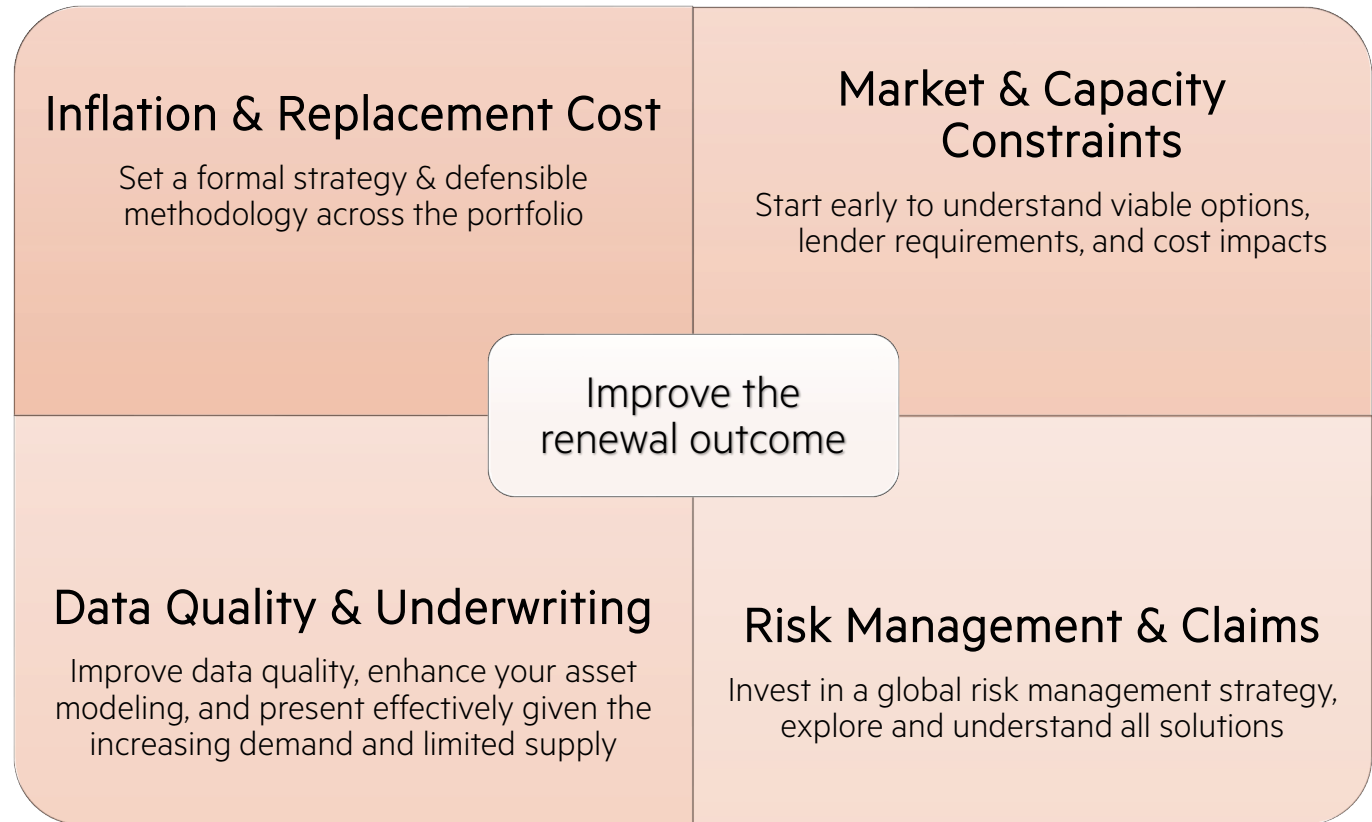
OF RESPONDENTS: 151

Water damage	106 (70.2%)
Fire damage	79 (52.3%)
Wind driven damage	43 (28.5%)
Other types of property damage	16 (10.6%)
Liability	80 (53.0%)
Workers' Compensation	37 (24.5%)
Umbrella	0
Excess Liability	0
Earthquake	0
Terrorism	0
D&O (Directors and Officers)	0
Employment Practices	7 (4.6%)
Cyber Risk	ND
Crime	6 (4.0%)
Professional Liability	ND
Environmental	5 (3.3%)
Other (including no claims)	10 (6.6%)

Build a Sustainable Insurance Program:

Key Takeaways

Be proactive in combatting these challenges to create sustainability



Questions?



Type your question into the chat box on your control panel.



The 2023 State of Multifamily Risk Survey and Report is now available for purchase

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