At a Steep Premium | October 2024

Gulf Coast Housing Providers Grapple with Skyrocketing Insurance

Across the country, affordable housing developments have been hit with dramatic year-over-year increases in insurance rates with no end in sight. In the Gulf Coast, both for-profit and nonprofit housing providers are grappling with how to deal with the climbing costs, by negotiating policies with higher deductibles, dipping into operational reserves, and taking loans to cover the gap.

Enterprise Community Partners (Enterprise) conducted this insurance analysis to provide concrete data on what is often talked about in general or anecdotal terms. By highlighting the issue, we hope that policymakers and the public understand the consequences of the insurance crisis on the Gulf Coast affordable housing industry and the critical need to mobilize action at the state and federal levels.

Enterprise is an industry leader in tax credit syndication, policy, program design and evaluation, and technical assistance. Since 1982, Enterprise has helped to create and preserve 1 million homes and invested over $72 billion dollars in capital in all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

As a fiduciary to investors, Enterprise's asset management division oversees operations and compliance of Low-Income Housing Tax Credit (LIHTC) investment properties. Through that role, we have access to expense data – including insurance increases – from our portfolio of nearly 1,200 developments, which comprises just over 100,000 units. We ran an analysis across 52 stabilized, post-construction, and fully leased housing in our Gulf Coast portfolio in Mississippi, Louisiana, Texas, and Alabama to determine the average rate increases providers are facing.

12.8%

SIX-YEAR GROWTH RATE TREND FOR ENTERPRISE GULF COAST PROPERTIES PER YEAR

$1,205

ANNUAL AVERAGE 2023 INSURANCE COST PER UNIT IN GULF COAST PROPERTIES SURVEYED – UP FROM $586 IN 2017

$1,367

MISSISSIPPI HAD THE HIGHEST INSURANCE RATES PER UNIT IN 2023

STICKER SHOCK

In April 2023, Paul Irons with New Orleans Restoration Properties (NORP) reached out to Enterprise to discuss changes to insurance expenses at his new affordable housing development, Grove Place, a 32-unit LIHTC rental property in the city's Hollygrove neighborhood. Paul had just learned from his insurance broker that the annual premium had risen to $140,000 from the original cost of $30,000.

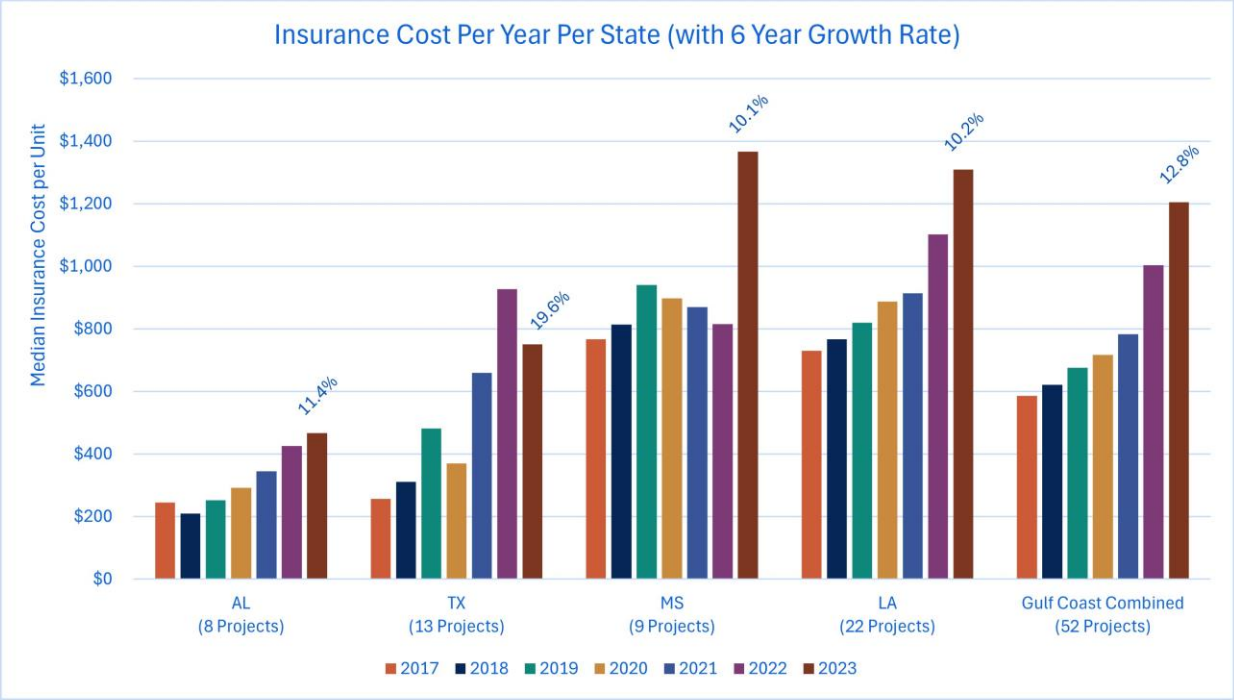
Such a drastic increase in insurance premiums – nearly 500% – would cripple many providers' operations, as the property would not be able to cash flow or even meet its operating expenses. Fortunately, NORP was able to find additional funding for the development that allowed them to eliminate monthly mortgage payments and direct more revenue to insurance expenses.

Though there are no silver linings to this kind of expense increase, NORP had the foresight to head off future cash flow issues with access to additional public subsidies. Grove Place is just one example of the insurance crisis's impact on affordable housing across the Gulf Coast.

Our analysis of insurance costs of 52 properties in our Gulf Coast LIHTC portfolio – across Mississippi, Louisiana, Alabama, and Texas – found that premiums per unit have increased from $586 in 2017 to $1,205 in 2023, representing a 12.8% average yearly increase over the six-year period.

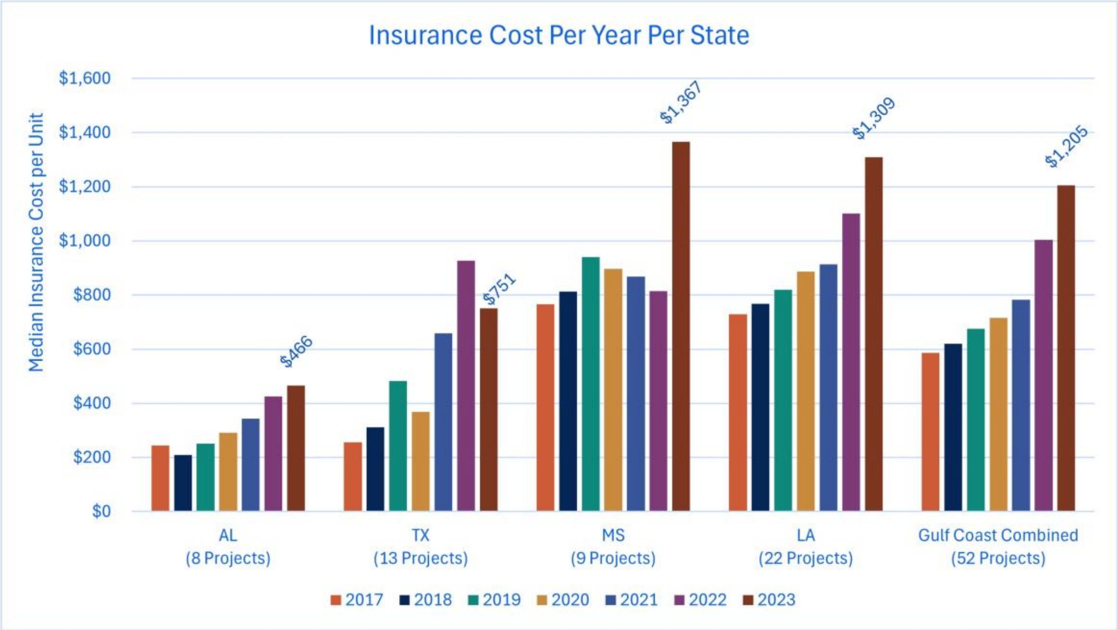
Increasing insurance costs are not unique to affordable housing or to the Gulf Coast, as property and casualty rates have increased nationwide across all real estate classes. But affordable housing is [uniquely vulnerable to premium increases] because of restrictions in the rent they can charge, and Gulf Coast states are experiencing some of the highest insurance costs in the country.

While these properties often operate with lower revenues than market-rate housing, they are experiencing the same level of expenses and cannot pass insurance costs down to tenants. Furthermore, for-profit and especially nonprofit affordable housing providers do not have enough surplus organizational reserves to keep this housing afloat, leaving both their portfolios and residents vulnerable.



The key findings point to a need to take immediate action in providing solutions and relief.

- Insurance costs per unit have increased from an average $586 in 2017 to $1,205 in 2023.
- The six-year growth rate trend for Enterprise Gulf Coast properties is 12.8% per year.
- Mississippi had the highest insurance rates per unit ($1,367) in 2023, followed closely by Louisiana ($1,309), Texas ($751), and Alabama ($466).
- Texas had the sharpest increase in insurance rates, going from $256/unit in 2017 to $751/unit in 2023, representing a 19.6% average yearly increase over the six-year period.
- Affordable housing providers in Louisiana and Mississippi experienced steep increases the last two years (21% and 19% for Louisiana and -6% and 68% for Mississippi in 2022 and 2023) while Texas saw even higher increases (79% and 41%) in 2021 and 2022.
- The highest per project increases were also felt in Louisiana and Mississippi: over less than a five-year period, one New Orleans development's annual insurance premium increased over $201,000 and in Vicksburg, Mississippi, one increased nearly $287,000.
- The impact of insurance premium increases was heavily felt in 2022 when the median cash flow per unit dropped to just $312.



A number of factors have been blamed for rising insurance premiums – claims history, climate issues, location, and type of construction to name just a few. But in the Gulf Coast, providers point to one significant cause: wind and hurricane risk. Louisiana in particular has been affected by wind risks, with six named hurricanes since 2020 making landfall in the state. Several insurance companies are no longer in business because of the massive number of claims or stopped writing insurance policies in Louisiana entirely. However, wind risks are not confined to hurricanes, as strong thunderstorms and tornadoes have become more common, leading to higher risk and increased insurance rates in the northern parts of these states.

Struggling to Keep Up

Unlike NORP with Grove Place, most of Enterprise's partners across the Gulf Coast cannot add funding sources or otherwise raise revenue on their properties. Instead, they have to draw from project or organization reserves or find other creative solutions to deal with the issue.

Drawing from reserves: As affordable housing providers find themselves unable to cover insurance expenses with restricted affordable rents, they are turning to partnership operating reserves, which are typically funded to cover operating deficits the property experiences over the compliance period of the deal, or general partner advances, which are monies loaned to the project from the general partner organization and re-paid from distributable cash flow to cover operating deficits or to directly pay for insurance renewals.

Higher deductibles and self-insuring: We have seen our partners work with their insurance brokers to set higher deductibles than Enterprise investors and lenders typically approve to save on their annual premiums, but which also place the properties at risk of receiving less in claim reimbursement. Some larger national developers who often share risk on their properties through blanket policies have begun utilizing self-insured retentions which place a large degree of responsibility for claim payment and settlement on the shoulders of the policyholder. While language may vary, the insured is typically required to pay the expense of the claim until the amount of retention is paid, after which the insurer assumes full responsibility for the claim.

Supplemental insurance: As supplemental insurance products such as parametric insurance become more well-known and tested, we are seeing a slight uptick in placement, though not all lenders including HUD, will approve this type of insurance.

This issue is not only impacting non-profit and for-profit affordable housing providers – public housing authorities are also feeling the sting of insurance increases. The Bay Waveland Housing Authority on the Mississippi Coast is struggling under the weight of premiums that have increased nearly $300,000 since 2018.

Across the Gulf we have seen Rental Assistance Demonstration (RAD) deals like those in Bay St. Louis and Waveland, Mississippi face significant hardships as HUD's yearly rent increases – referred to as the operating cost adjustment factor or OCAF – are not budget-based and are insufficient to cover the sharp increase in operating expenses. Public housing authorities around the Gulf and the nation are struggling to maintain operating expenses with HUD's OCAF rent adjustments that are not nearly enough to keep up with insurance premiums.

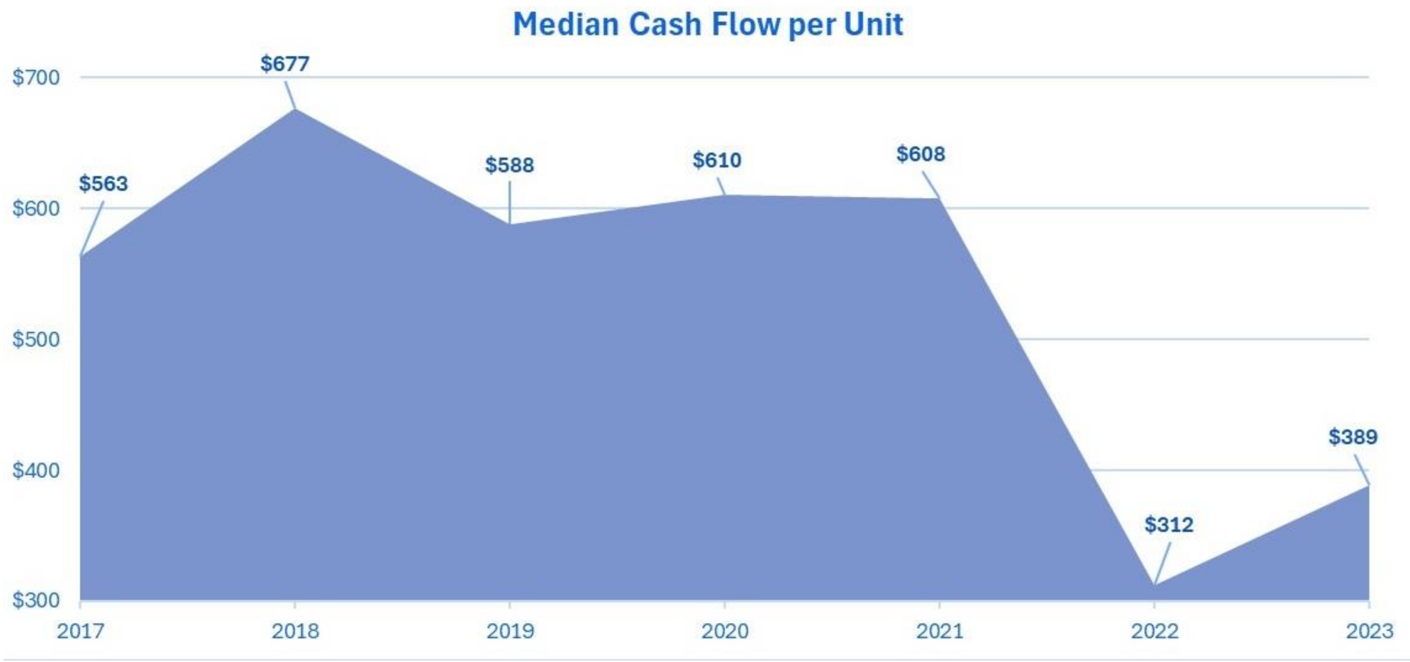
The Bay Waveland Housing Authority's premiums have increased nearly $300,000 since 2018.

SUSTAINABILITY AT RISK

The bottom line is that these insurance premium increases, when combined with increased expenses across the board due to inflation and labor shortages, are not sustainable for continued operations of affordable housing properties. In accordance with industry standard risk ratings, Enterprise asset management evaluates properties based on several financial indicators. Currently, 8% of our Gulf Coast properties are on our investor project performance watch list due to negative cash flow related specifically to increases in insurance premiums. These properties are at risk of failing if their insurance and operating costs continue to outstrip their rent revenues.

The cycle of pulling from partnership reserves or general partner advances from their organization's operating cash or reserves to cover deficits caused by these dramatic increases in insurance premiums is unsustainable and depletes reserves set aside for other property needs and expenses when or if they arise. Underwriting such high insurance expense alongside other rising costs and flat rental revenue doesn't pencil, and new deals are having a harder time closing without increases in hard or soft debt. Without full insurance coverage, properties often aren't in compliance with lenders, investors, or state/federal regulations.

Additionally, new underwriting systems being released for Moody's and Verisk's platforms (data analytics firms whose data is utilized by the global insurance industry) include updates to hurricane models for the U.S. Experts have speculated the Gulf Coast and Southeast will be most affected by these updates and may experience increases anywhere from 5 - 30%. Inflation in construction costs and increases to total insurable values (TIVs), along with property losses from recent hurricanes Helena and Milton, may also have the effect of raising premiums.



Enterprise

Immediate Action Needed

Enterprise is actively searching for solutions to the insurance crisis. Enterprise's Gulf Coast office has joined industry groups in raising insurance issues to state housing agencies and insurance regulators. Enterprise's federal policy team has worked to raise these issues at the federal level, including joining 23 other national housing organizations in sending members of Congress and the Biden administration a letter highlighting insurance problems and potential bipartisan fixes.

Enterprise's Asset Management team has engaged insurance consultants and has been working hand in hand with housing providers to navigate increasing insurance costs and the effects on property sustainability.

8% of Gulf Coast properties are experiencing negative cash flow due to insurance premium increases.

State policymakers have taken action as well. In some instances, state agencies have stepped in to fill gaps in struggling projects, while also adapting policies that ensure new projects meet higher climate-resilient standards, like Enterprise Green Communities and FORTIFIED construction.

In Louisiana, the state insurance commissioner and legislature have advanced policies for a more "business friendly" regulatory climate for property insurers, in hopes of luring them back into the state.

And more action on insurance is needed. Focus on this issue will need to continue into the foreseeable future, as insurance premiums are still increasing and the cracks in affordable housing sustainability are just starting to show. We encourage all stakeholders, including policymakers, lenders, and investors, to work together to address the insurance crisis and ensure affordable housing organizations can continue to provide homes for Gulf Coast families.