JUNE 2023

NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

STATE OF MULTIFAMILY RISK

SURVEY & REPORT

with analysis from

FHS RISK MANAGEMENT

TABLE OF CONTENTS

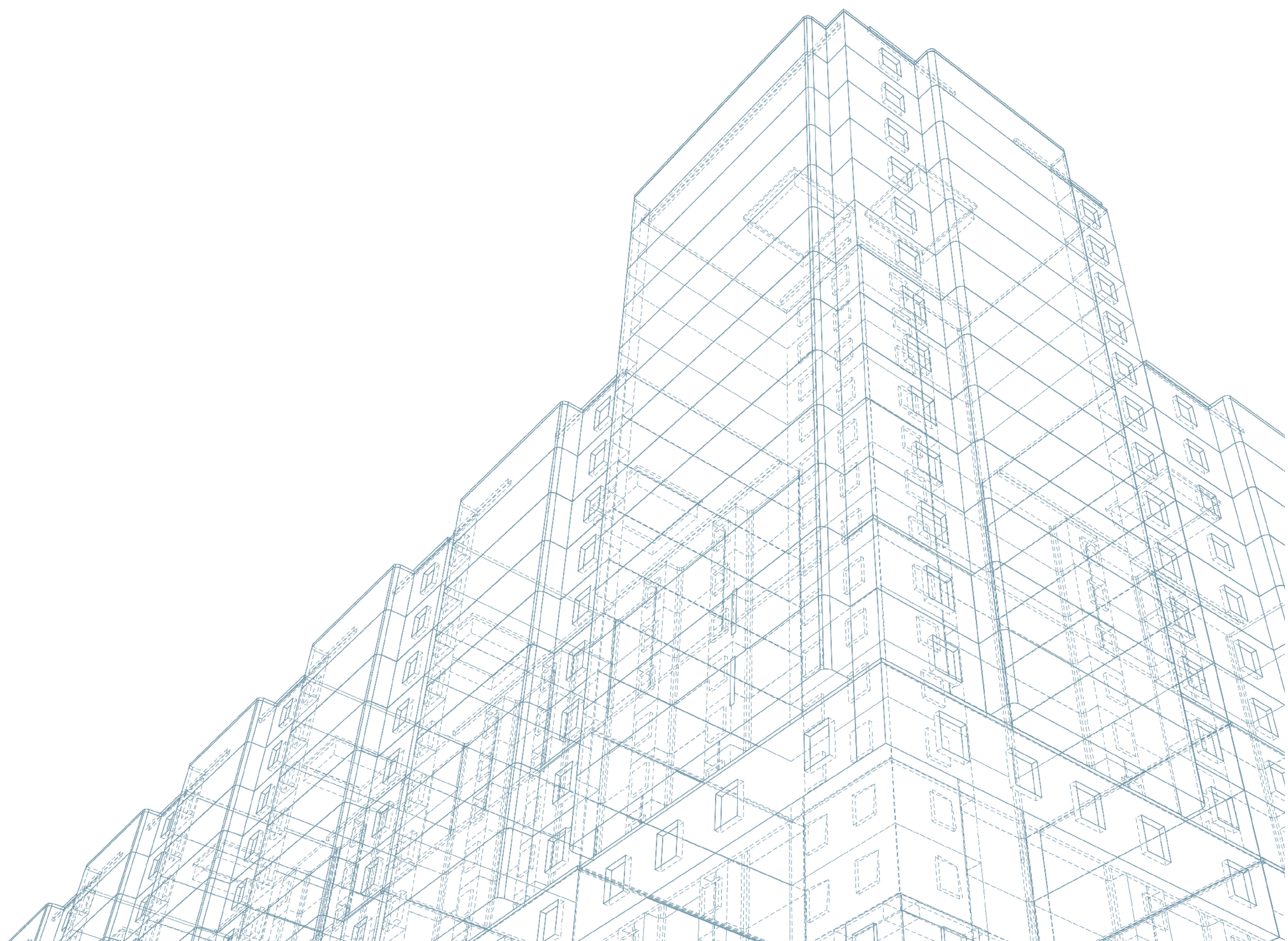
About NMHC

Based in Washington, DC, the National Multifamily Housing Council (NMHC) is a national association representing the interests of the largest and most prominent apartment firms in the United States. NMHC's members are the principal officers of firms engaged in all aspects of the apartment industry, including ownership, development, management and financing. The NMHC advocates on behalf of rental housing, conducts apartment-related research, encourages the exchange of strategic business information and promotes the desirability of apartment living. Nearly one-third of Americans rent their housing, and almost 15 percent live in apartments (defined here as buildings with five or more units). For more information, contact the NMHC at 202/974-2300, email the NMHC at info@nmhc.org or visit the NMHC's website at www.nmhc.org.

About FHS Risk Management

FHS Risk Management is an independent insurance and risk management consulting firm focused solely on real estate owners, managers and developers. With a portfolio of over 120 clients across the United States, approximately $1 billion of insurance premiums under advisement, over 200 active construction projects and over 420,000 residential units, FHS provides a broad understanding of the current insurance market and the challenges faced by the real estate industry.

FHS was selected and invited to review, compile and report on the aggregated Survey results and supplement the report findings with their independent insights. In combination with the Survey results, FHS's insights and recommendations provide actionable intelligence to NMHC members and other stakeholders as they prepare for insurance challenges.



REPORT OVERVIEW

Apartment firms have faced a volatile and costly insurance market for over a decade. Owners, operators and developers of all types of multifamily rental housing have been hit particularly hard in recent years, as all lines of insurance costs (e.g., property, liability and cyber) have risen dramatically. In addition, coverage limitations, deductible increases and, in some cases, the absence of an affordable or viable private insurance market altogether have increased the financial risk borne by housing providers directly and strained property operations.

The lack of affordable insurance options for property owners of all types increasingly puts needed insurance coverage out of reach and limits the ability of property owners to make needed investments in their properties. A May 2021 survey and report sponsored by NMHC, the National Apartment Association (NAA), the National Leased Housing Association (NLHA) and other affordable housing-focused organizations revealed that these conditions have negatively impacted housing providers and renters.

Most housing providers have indicated that they would mitigate higher insurance premium costs by increasing insurance deductibles, decreasing operating expenses or being forced to raise rents. Given the soaring operational costs faced by firms across the board, these steps are a necessary but last resort.

These challenges have coincided with an expanding multifamily risk landscape. A stressed insurance market, stubborn inflationary pressures and rising interest rates have disrupted transactions and negatively impacted valuations. This, in turn, harms the industry's ability to attract the investments required to meet the nation's housing needs and help address its housing affordability crisis.

To address the impact of rising insurance costs on the multifamily market's health, NMHC established a Risk Management Working Group comprised of firms from across the industry representing diverse property types and geographies. The Working Group worked quickly with NMHC to create the State of Multifamily Risk Survey to study the causes and impacts of the challenging insurance market and better inform industry stakeholders and policymakers.

NMHC surveyed its membership as part of this work. This report details the findings and analysis of the resulting data. Notably, this 2023 Survey had a higher response rate than all prior NMHC insurance surveys, indicating that the industry views these challenges as serious.

Apartment firms handle risk management in several ways and face policy renewals at varying points throughout the year. For this reason, it's important to note that the Survey results represent a snapshot of the market at the time of collection. This report provides additional context for what multifamily firms should expect when renewing their policies throughout the year and in future years.

The report is organized in the following format:

- **About the Survey.** Background information and methodology for survey data collection and the tabulation of results.
- **Current Insurance Landscape Analysis.** A discussion of the most pressing issues related to the multifamily insurance market by industry experts, combining their expertise with relevant findings from the NMHC survey.
- **Complete Results of the 2023 State of Multifamily Risk Survey.** Charts and tables detailing all results from the full NMHC membership survey.

About the Survey

NMHC launched this State of Multifamily Risk Survey in February 2023 and received 160 individual responses representing apartment firms of varying portfolio sizes and property types across all geographic regions. Each apartment/multifamily firm was represented only once; the most complete responses were retained for firms from which multiple responses were collected. Not all respondents answered all the survey questions. The survey questions were organized into multiple sections:

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

Many questions included open-ended responses. Responses were sorted into various categories for ease of reporting in the survey results. A label of "ND" is recorded for responses/categories where fewer than five responses were collected to maintain the confidentiality of the respondents. For many questions, respondents could select more than one response; in these cases, percentages could add up to more than 100 percent.

SECTION 1

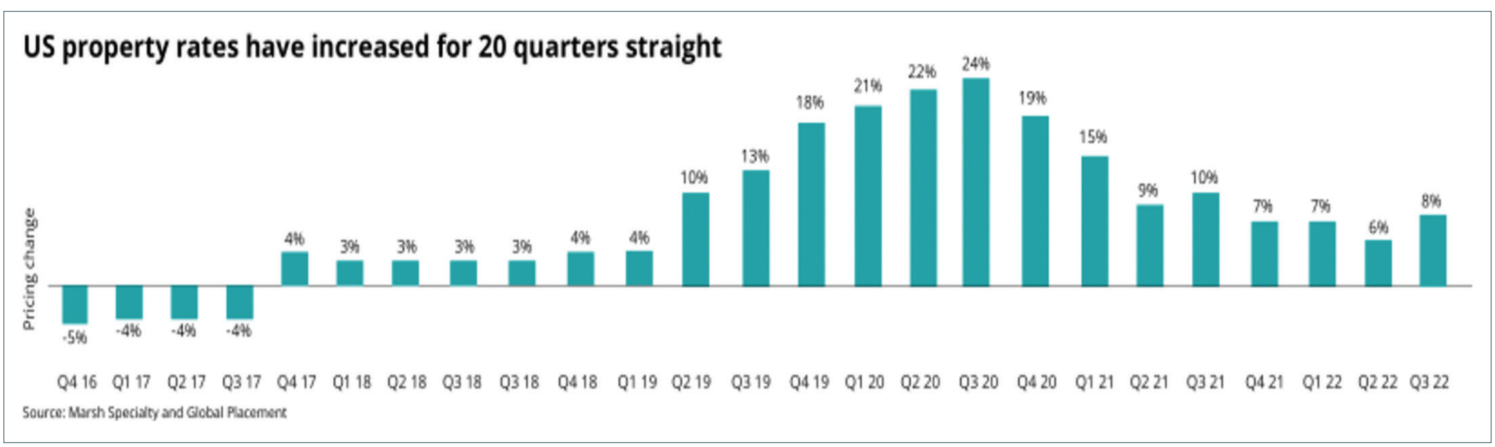
ANALYSIS BY FHS OF NMHC'S STATE OF MULTIFAMILY RISK SURVEY

Before 2017, the property insurance industry experienced a good insurance buyer's market — a "soft" market — for a prolonged period. Large catastrophic events were infrequent, so insurers could fund and reserve capital and plan to pay claims for large natural catastrophes. The insurance market was competitive, and new capital continued to enter the insurance space from firms seeking alternative revenue streams not correlated with the financial markets.

For many years, there was abundant insurance capacity, which drove insurance rates down. Insurance brokers capitalized on this ample capacity to structure insurance programs for real estate companies that offered broad insurance coverage terms, substantially high insurance limits and low deductibles. Insurance carriers and underwriters competing for market shares paid less attention to the quality of insurance underwriting data (i.e., claims, risk engineering and data quality). Insurance firms operating in this climate also accepted low reported building insurance replacement (rebuilding) cost values.

However, things started to change in 2017, as more frequent and more severe large natural catastrophes began to hit insurance companies. This includes frequent severe hurricanes, large wildfires, widespread floods and freeze events in the Sun Belt region. Formerly infrequent large catastrophe claims seemed to be annual events, and their impact on the insurance market continues today.

Insurers are reporting higher claim payments from these storms than they planned for. The inflationary impact of increased material and labor costs combined with supply chain issues has increased claim payouts beyond what underwriters expected or collected premiums for. This has all led to a longer, more sustained "hard" market characterized by rigorous underwriting scrutiny on claims, building engineering information and the adequacy of building replacement costs. The pendulum has now swung well away from buyers to favor insurers and reinsurers.



According to a Swiss Re report on natural catastrophes and inflation, insured losses in 2022 were well above the 10-year average, with $132 billion in total insured losses and $125 billion in natural catastrophe insured losses. As of the first quarter of 2023, we have seen 22 consecutive quarters of property insurance rate increases. According to Marsh's May 2023 market update, Q1 2023 rate increases trended near 15 percent plus additional building cost increases (+10 percent average), culminating in +25 percent premium increases. All signs suggest that renewals in Q2 and the remainder of 2023 will likely be the same or worse.

The NMHC Survey, along with market intelligence from FHS's client base, identified the following key factors driving higher prices and lower coverage in the multifamily space:

1. **The impact of rising inflation on replacement cost methodology**
2. **Insurance market capacity constraints and policy limitations**
3. **Risk management, claims and loss prevention**
4. **Data quality, underwriting and their impact on premiums**

This report provides a detailed analysis of how these factors affect the insurance market and offers practical considerations for overcoming these challenges and establishing a sustainable insurance and risk management program.

THE IMPACT OF STUBBORN INFLATION ON REPLACEMENT COSTS METHODOLOGY

Analysis

The Survey results revealed that there is no one-size-fits-all method for determining a building's insurable replacement costs. Organizations use different processes, such as internal valuations, working with brokers and risk consultants, relying on construction/development team knowledge, engaging third-party services, using industry standards, following lender-driven requirements and assessing replacement costs annually.

Ongoing supply chain issues and rising inflation costs have led to higher construction/rebuilding costs, impacting replacement costs for properties insured under operational insurance programs. Insurance companies are raising their premiums and rates to account for these higher replacement costs.

The top five (5) methods reported by respondents for determining insurable replacement costs were as follows:

1. Using industry standards, such as Marshall and Swift, CoreLogic or the National Building Cost Manual, for replacement cost analysis.

2. Engaging third-party services for physical evaluations and tabletop valuations.

3. Using a combination of methods, such as working with brokers and internal estimating groups and engaging preconstruction estimators, for market pricing evaluation.

4. Relying on construction/development team knowledge to understand current and new building construction costs.

5. Reviewing guaranteed maximum price schedule of values (GMP SOVs) and other cost metrics to determine replacement costs.

In addition to (or often in concert with) one or more of the aforementioned methods, many firms work directly with their insurance brokers to determine replacement costs. Many brokers have access to valuation tools similar to those used by insurance carriers, while others employ valuation engineers who can provide replacement cost valuation assessments.

Impact

The impact of rising insurance valuations in the real estate insurance industry can be seen in the following ways:

- **Impact on Risk Modeling, Lender Insurance Requirements and Limit Purchasing**
  Building values comprise the largest share of a real estate owner's total insurable values and thus play a critical role in determining appropriate coverage limits. These values feed directly into risk models, which are used to analyze and assess a property's potential risks, such as natural disasters or other hazards. Insurance building values are fundamental inputs in risk modeling and provide loss projections at various return periods to help owners determine the appropriate level of coverage. Accurate building values are necessary to ensure that a property is adequately insured and can help mitigate potential losses from unexpected events.
  Limit purchasing refers to the maximum amount of insurance coverage an owner can purchase for a particular property.

- **Insurance Building Values Are Crucial in Determining Limit Purchasing for a Property**
  If building values are not accurately assessed, a property may be underinsured, exposing the owner to significant financial losses in the event of a claim. Lender insurance requirements refer to the minimum insurance coverage a lender requires for a property. Lenders use insurance building values to determine the appropriate level of insurance coverage for a property. Inaccurate building values can result in insufficient insurance coverage, exposing the lender to significant financial risk if the property is damaged or destroyed. Insurance building values are essential in risk modeling, limit purchasing and lender insurance requirements. Accurate building values are crucial to ensure that a property is adequately insured, which can help mitigate potential losses from unexpected events and protect both the property owner and the lender from financial risk.

- **Impact on Carrier Appetite and Capacity Viability**
  In response to rising materials and labor costs and recent claims where buildings were undervalued compared to the amount claimed by the insured, insurance carriers are scrutinizing portfolio values when reviewing submissions and providing a quote. Certain carriers have been restricted to either not providing quotes if a portfolio's dollars-per-square-foot estimate is too low or manually inflating clients' portfolio values and assigning pricing of an increased portfolio value set. If a firm's values are not up to a standard accepted in the marketplace, carriers may restrict capacity and impose coverage limitations on policies that will impact recovery in the event of a severe casualty.

- **Impact on Premium Allocation**
  Building values are used primarily for rating and allocation purposes for owners with corporate programs and blanket coverage. At its simplest, the premium for each property under these programs is determined by the following formula:

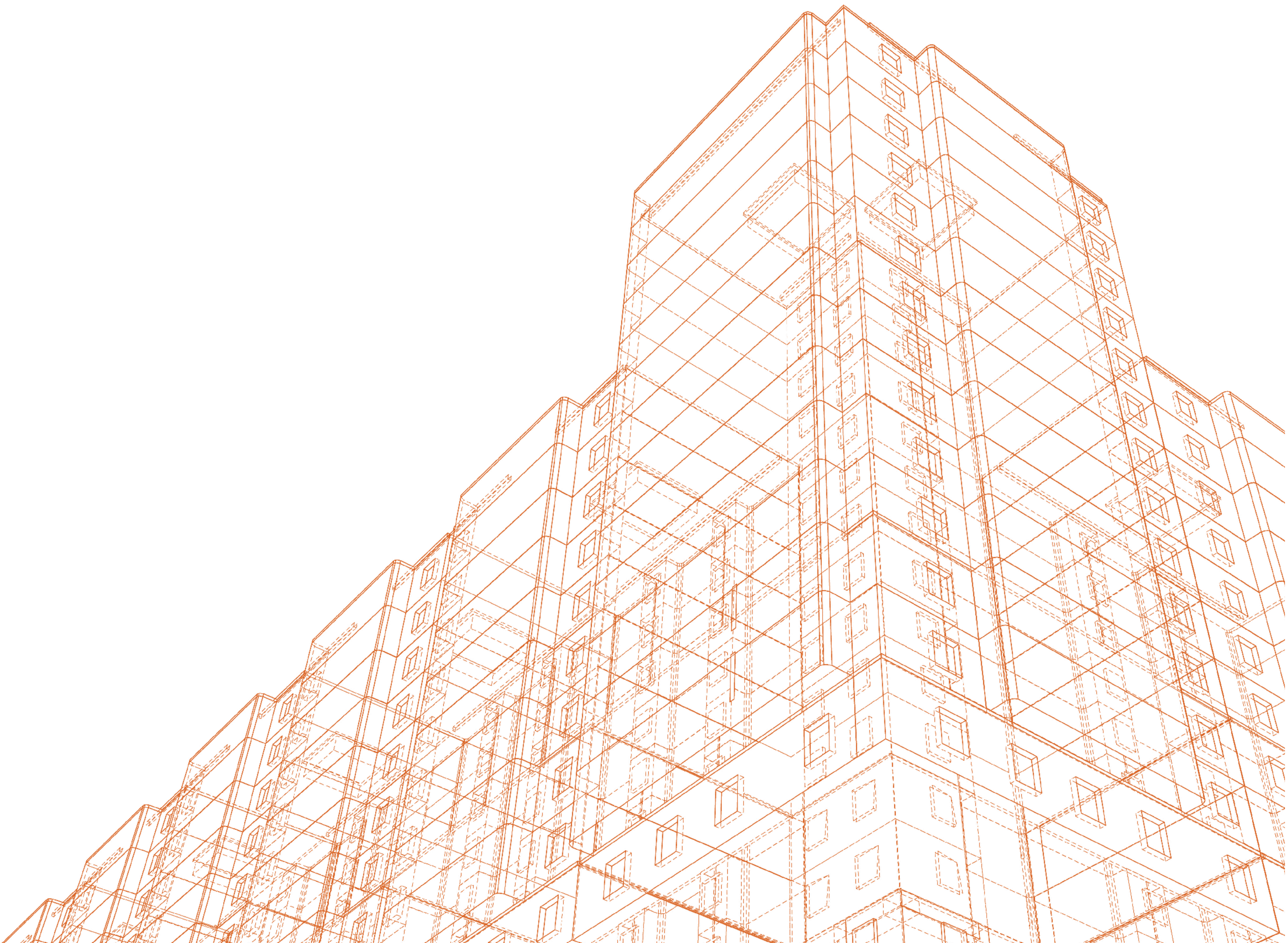
  [Total Insurable Value (Building Value & Contents + Rental Income) / 100 * Rate]

  Increasing building values causes a premium increase for the asset before a rate increase for the larger program is considered.

Combating These Challenges: Considerations for Multifamily Owners

Assess Replacement Cost Methodologies. Building and implementing a comprehensive framework for replacement cost valuations is essential in today's market and must be revisited annually. Carriers are using valuations tools to compare with reported values. They are also looking to see if insureds are employing an elementary approach to estimating replacement costs, such as reporting all wood frame properties at $100 per square foot across the country instead of considering each property's specific characteristics.

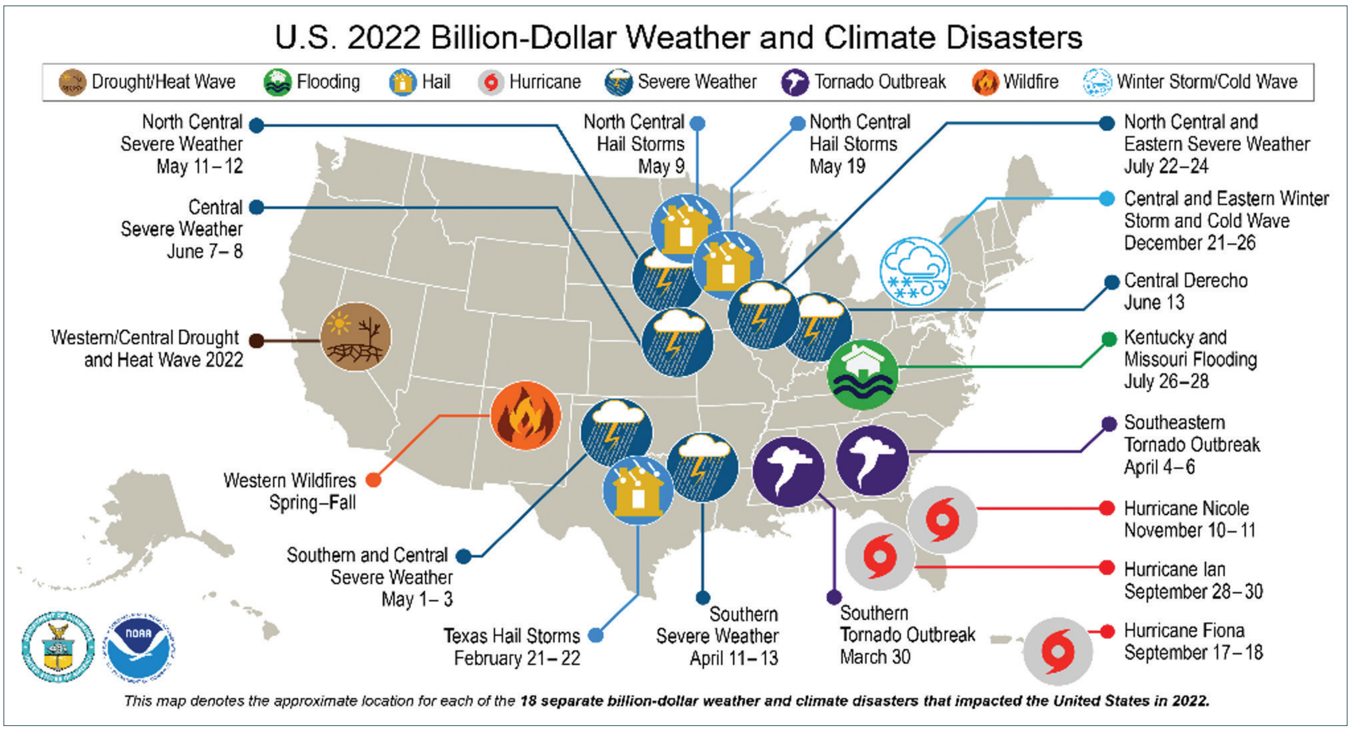
Not only is it essential to build this framework, but it is also crucial to present the firm's valuation methodology to underwriters. Carriers are looking for validation of reported values, particularly when reported values vary from those estimated by their valuation tools. A well-planned building valuation methodology demonstrates a proactive approach to risk management, which can set owners apart in a constricted insurance capacity environment and ensure sufficient insurance to rebuild in the event of a major loss.



INSURANCE MARKET, CAPACITY CONSTRAINTS AND POLICY LIMITATIONS

Analysis

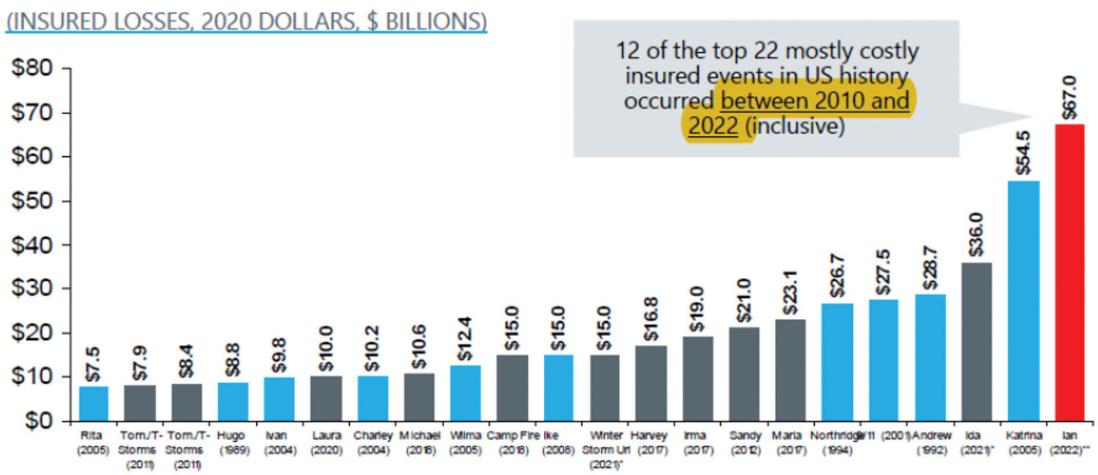
Today's property insurance market has severe capacity constraints. Capital is leaving the market due to adverse losses and the increased cost of capital from reinsurers (firms that provide financial backing to insurance companies; i.e., insurance for insurance companies). Additionally, the reinsurance market — which has a minimal domestic presence — is experiencing significant volatility, with January 1, 2023, treaty reinsurance renewals seeing material rate increases along with a reduction in capacity and an increase in retentions for catastrophe capacity. The impact of these reinsurance renewals trickles down to the retail insurance market. Below is a graphic depiction of weather-related events that resulted in catastrophic claim payouts by the insurance industry in 2022 alone.



https://www.climate.gov/news-features/blogs/2022-us-billion-dollar-weather-and-climate-disasters-historical-context

As outlined in the previous section, the insurance industry relies on actuarial risk models to project losses and accurately charge premiums commensurate with perceived risks. In recent years, carriers have seen huge claim payouts from unmodeled natural events, including the February 2021 Texas freeze event, Hurricane Ida's disproportionate impact on the northeast in September 2021 and the inordinate severity of Hurricane Ian in September 2022. These new and more frequent major events have strained carrier risk models and eroded underwriting profitability. As a result, insurers are driving material rate increases and reduced capacity through Q1 2023. Despite these rate increases, there is no evidence of meaningful new capacity entering the market.

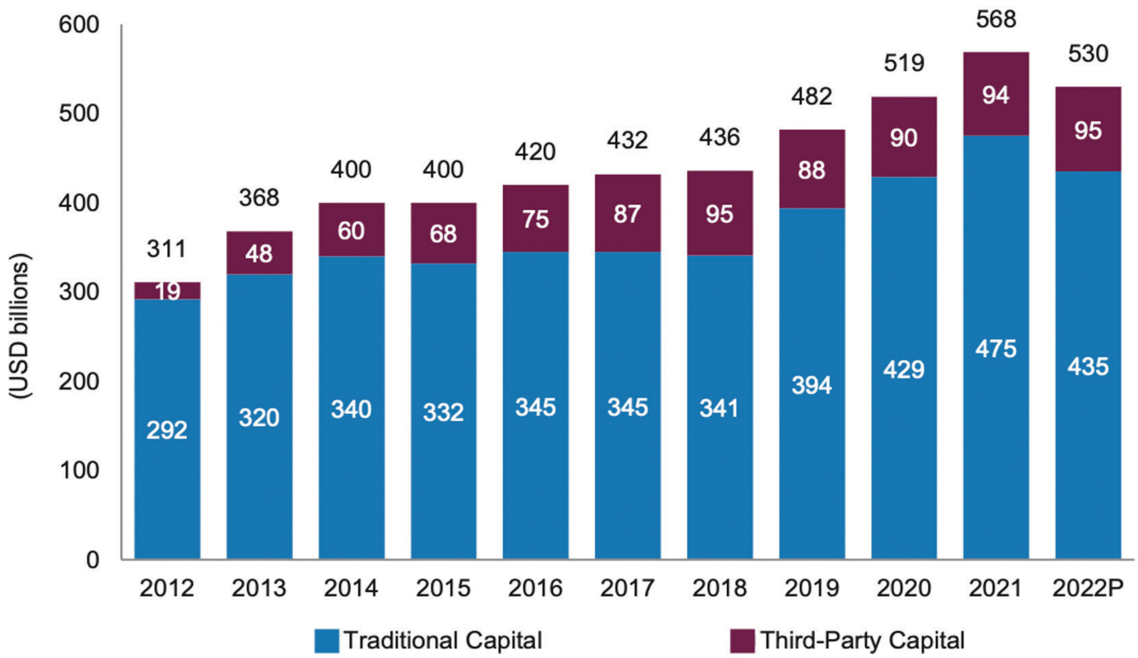
Most Costly Disasters in U.S. History —Hurricane Ian Overtakes Katrina



*2021 dollars; **2022 dollars (RMS private insurer estimate as of 10/10/22). Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.

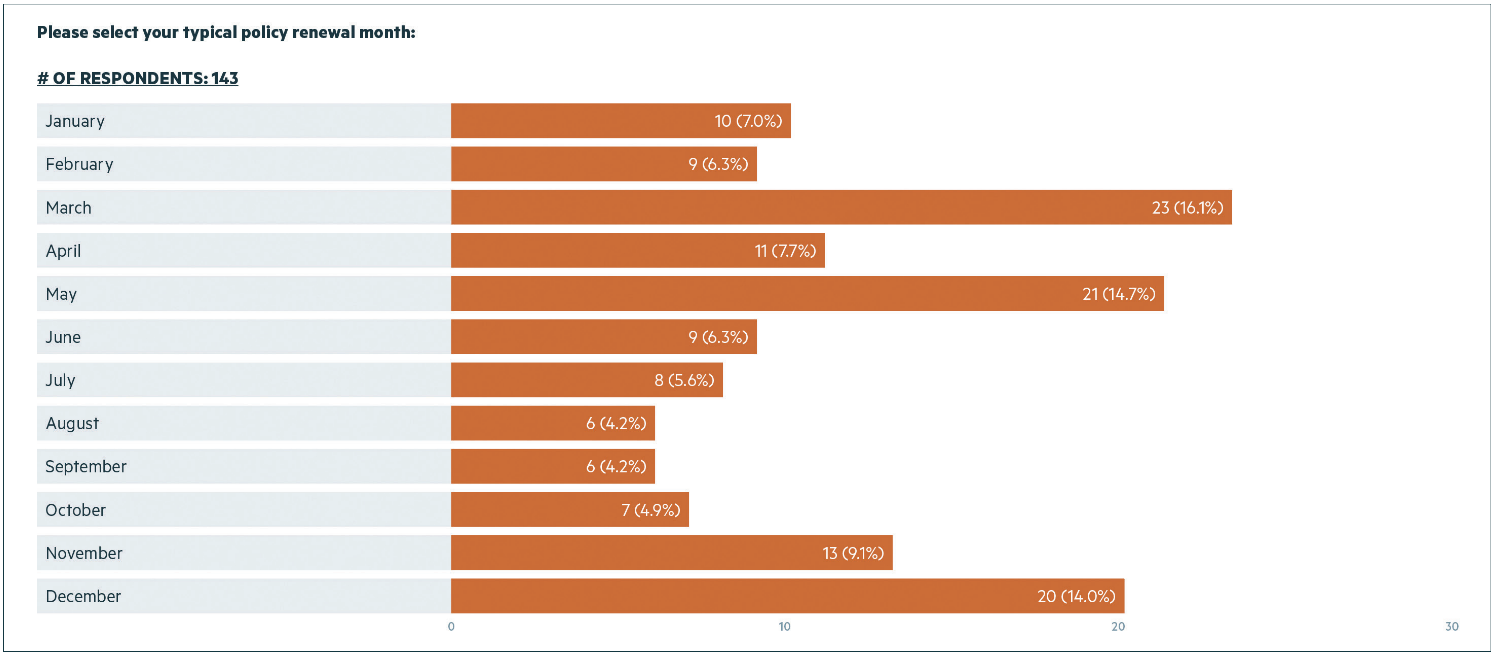
18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

Global Reinsurance – Estimated Total Dedicated Reinsurance Capital

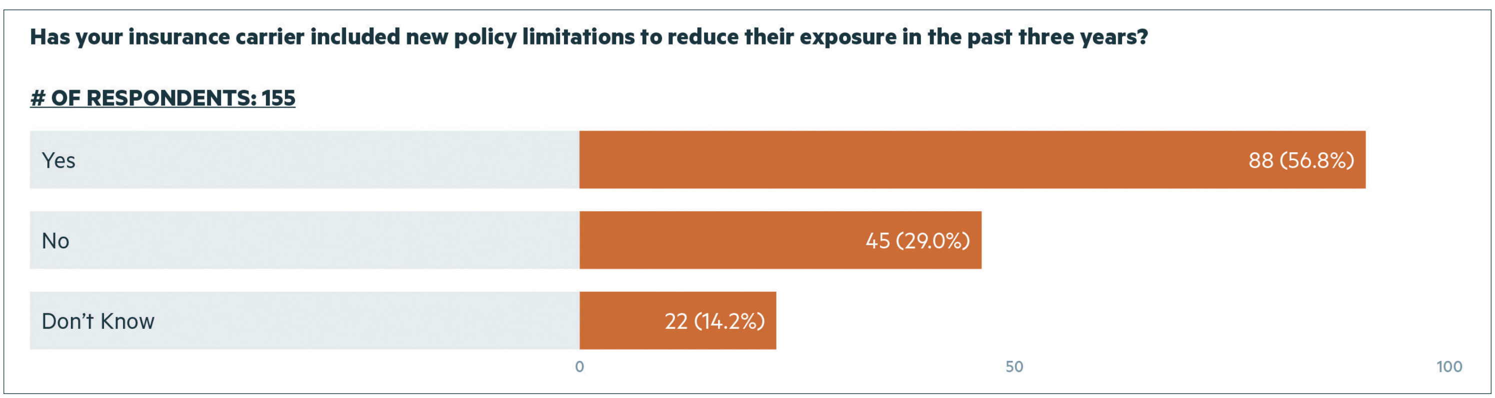


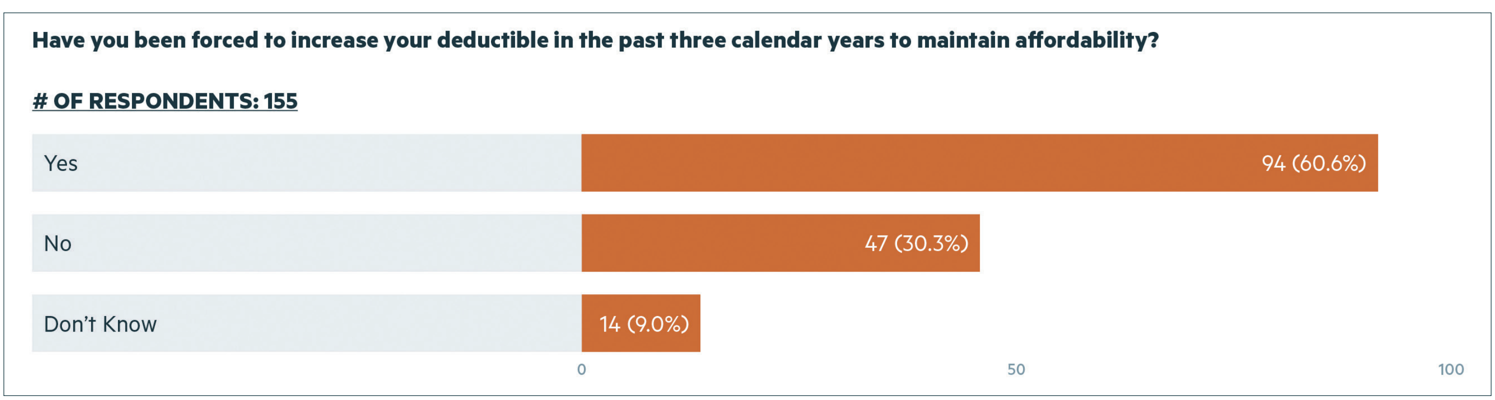
P=Projected
Source: AM Best data and research; Guy Carpenter

Continued development, particularly in capacity-strained markets (e.g., Florida and Texas), and substantial inflation-driven increases in insured values are creating additional demand for property insurance capacity.



Survey respondents renewed their insurance the most in March (23 firms), followed closely by May (21 firms) and December (20 firms). Meanwhile, August, September and October had the lowest numbers of respondents (6 or 7 each). It is worth noting that the United States hurricane season typically runs from June through November, explaining the lower numbers of renewals during these months. Insurers usually do not like to renew during hurricane months because of the possibility of an impending major hurricane. Portfolios with renewals during hurricane season are likely to have minimal or no catastrophic-exposed assets.





In the past three years, 61 percent of the respondents had to increase their deductibles to maintain affordability, with property coverage being the most affected line at 84 percent. Additionally, 57 percent of the respondents indicated that their insurance carriers included new policy limitations to reduce their exposure, with property coverage again being the most affected line (73 percent). Furthermore, 34 percent reported that their insurance carriers limited or reduced coverage amounts, with property coverage again being the most affected line (73 percent).

These findings show that property coverage has become much more expensive in recent years, leading policyholders to raise deductibles and insurers to limit coverage amounts and include new policy limitations.

Impact

Property coverage has become more expensive and less comprehensive in recent years. Real estate owners must understand the relationship between insurance deductibles and limitations because it can significantly impact their financial liability in the event of a loss or claim. Owners must be able to cover deductibles in the event of a loss and ensure that their policy limitations (the maximum amounts an insurer will pay for particular types of loss) will protect them against all potential risks.

A higher deductible usually means a lower insurance premium, and vice versa. If owners do not clearly understand their insurance policy's deductibles and limitations, they may incur unexpected out-of-pocket expenses or even face financial ruin if their coverage is inadequate to cover a significant loss. Understanding these aspects of insurance policies is crucial for real estate owners to make informed decisions when selecting insurance policies and effectively manage their risk exposure. Real estate owners should carefully review their policies and work closely with their brokers and risk management teams to fully understand the insurance they purchase.

Combating These Challenges: Considerations for Multifamily Owners

- **Process:** Begin policy renewals early and get firm expectations from your broker. What levers or additional information can be acted on to improve results and ensure you are prepared for all possible renewal outcomes?

- **Data Quality and Modeling:** Insurance brokers took advantage of a soft market to structure programs with coverage and limits well in excess of actuarial loss models. As the market continues to harden and capacity becomes more expensive, real estate firms must work closely with their brokers and advisors to understand their loss project models and determine what they need to buy from a risk management perspective. Data quality has a pronounced impact on the results of these models, making it essential to collect relevant construction and occupancy information ahead of each renewal to feed these models and determine the appropriate level of coverage.

- **Access Points:** In this challenging market, it is imperative to work with effective broker partners and have good internal risk management to confirm you are getting the best deal in the marketplace. Meet your wholesale broker and engage in market meetings and visits to ensure no stone is left unturned.

- **Creativity:** Work with risk management and your broker to explore and understand all possible insurance solutions available in the marketplace based on your firm's organization.

- **Lender discussions:** The current insurance market can make complying with onerous lender requirements economically infeasible. Owners need to negotiate as much flexibility as possible in all new loan agreements to plan for future volatility in the market. On existing loans, it is important to review insurance requirements ahead of each renewal to assess whether you anticipate requesting a waiver from your lending partners to accept noncompliant coverage terms.

Analysis

The NMHC Survey results, industry market intelligence and publications clearly indicate claims and risk management play a critical role in the real estate industry, particularly for firms that own multifamily properties.

As insurance costs continue to climb in the current environment, multifamily owners need to have a risk management philosophy in place that emphasizes proactive risk identification and mitigation strategies. Implementing proactive risk transfer through contracts and loss control coupled with continuous analysis of policy deductible structures, alternative risk transfer concepts and claims management can help multifamily owners create sustainable risk management programs in the current market. In the same vein, having a claims handling and management process will help prevent and mitigate compounding losses. Claims handling in conjunction with strong renters insurance requirements (at lease and upon renewal) and third-party compliance can significantly mitigate losses across your portfolio and improve the financial profile of your account for insurance carriers.

Risk Management Insurance System (RMIS)
The results revealed that a significant number of the organizations surveyed did not have a risk management insurance system (RMIS) in place. Only 30 out of 159 respondents (19 percent) reported having an RMIS, whereas 85 respondents (54 percent) reported not having an RMIS. The remaining 44 respondents (28 percent) did not know if their organization had an RMIS. An RMIS can provide organizations with real-time data on various types of risks, enabling them to make informed decisions that can mitigate the impact of risks on their operations. That said, this may be a process that is outsourced to a broker or consulting partner.

Third-Party Insurance Compliance
Many Survey responses indicated that third-party insurance compliance is handled by a combination of in-house staff and third-party vendors, with various teams responsible for different aspects of compliance. Some companies rely on insurance brokers or consultants; others outsource the task to property management companies or utilize compliance management services. Many require vendors to provide evidence of insurance via third-party software or manual review, with exceptions approved by risk management. It is common for contractors to be required to have an insurance certificate on file before being paid and for asset management or risk management teams to oversee compliance. Additionally, some companies perform inspections or participate in annual reviews with third-party consultants to ensure compliance.

Insurance compliance is a critical component of risk management, and ensuring that third-party vendors and contractors carry adequate insurance protects companies from potentially significant losses. In some cases, compliance requirements may be driven by contractual agreements or regulations. Given the variety of approaches reported in the responses, companies may benefit from evaluating their insurance compliance processes and considering the advantages and drawbacks of in-house versus third-party management and the use of software or consultant services. A proactive approach to insurance compliance may help companies avoid costly lawsuits, reputational damage and other negative consequences that can arise from inadequate insurance coverage.

Renters Insurance

The Survey questions aimed to assess rental insurance requirements and compliance processes among property management companies. The first question inquired as to whether the respondents required renters insurance, to which 92 percent responded in the affirmative. Of that 92 percent, 11 respondents, indicated their requirements varied depending on the location. Only nine percent of the respondents answered otherwise. The survey findings did not explain why there were varying insurance requirements, but it can be inferred that this may be due to differences in state laws or company policies.

Do you require renters insurance?

# OF RESPONDENTS: 160	
Yes	135 (84.4%)
Varies by jurisdiction	11 (6.9%)
No/Don't Know	14 (8.8%)

The renters insurance providers most commonly used by the respondents were:

1. Yardi
2. eRenter
3. ePremium
4. Internal Captive
5. Renters Legal Liability

The Survey also sought to understand the renters insurance limits set by property management companies. The responses varied widely, with the majority (86 respondents) indicating a $100,000 limit, and seven respondents who answered, "Unsure." These results suggest that most property management companies are comfortable with a $100,000 limit. However, it is essential to note that this may vary based on property value, location and state laws.

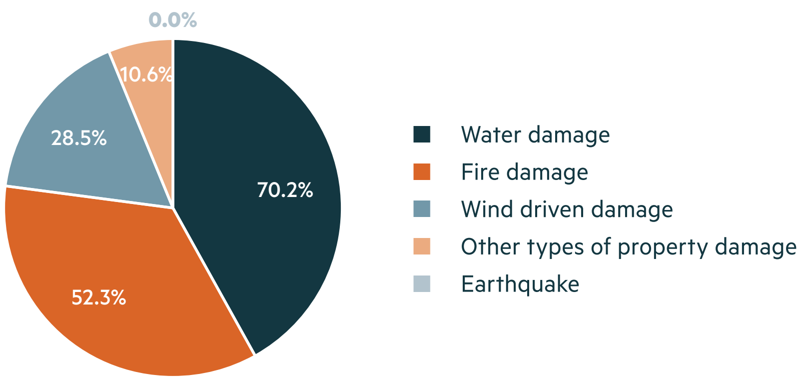
What are the limits? (Asked for those who answered "Yes" or "Varies by jurisdiction/where allowed" to "Do you require renters insurance?")

# OF RESPONDENTS: 115	
Varies	8 (7.0%)
$100,000	86 (74.8%)
$300,000	8 (7.0%)
$1,000,000	5 (4.3%)
None/Other	7 (6.1%)
Don't Know/Unsure	7 (6.1%)

The Survey also asked respondents to identify their most frequent and severe types of claims (respondents could choose more than one). As shown in the graph below, of the 390 responses, the greatest portion (244 responses, 63 percent) indicated property claims, followed by liability claims (80 responses, 21 percent). Within the category of property claims, water damage and fire events caused 76 percent of claims.

# of Responses Most Frequent Claims	# of Responses Most Frequent Claims	# of Responses Most Frequent Claims	# of Responses Most Frequent Claims
390 Responses	244 Property	80 Liability	66 All Other

Property Claims by Type
 # OF RESPONDENTS: 390



Impact

Insurance carriers are for-profit businesses. As such, they annually review their historic loss ratio (premium collected vs. paid out) on the account of each portfolio. They aim to break even at an 80 percent or lower loss ratio in each review. This provides them with profits and pays for expenses, such as labor. In the current marketplace — where capacity is limited and carriers have increased demand for their products — carriers are being more selective about which risks they agree to cover, giving firms with adequate risk management an advantage in a competitive market environment. A challenging loss history will force carriers to increase their rates to ensure they are profitable and reduce their willingness to participate in your program. This impact comes before valuation and market issues, which compound on this effect for portfolios with bad losses. The inverse is also true, as portfolios with clean loss histories will see more favorable results and greater carrier interest.

Combating These Challenges: Considerations for Multifamily Owners

Investing in risk management practices starts at the top. Risk management is a crucial element in creating a sustainable insurance program. While insurance will respond to casualty events, adverse losses will result in higher costs over the long term. Implementing standardized risk management processes and focusing on proactive risk transfer can enhance protections for real estate firms without driving costs. Another avenue of action to combat claims on your portfolio and build a narrative for insurance companies is CapEx investment in loss prevention and mitigation technology. As outlined in the analysis of claims responses, over 43 percent of property claims can be attributed to water damage. Currently, many firms are entering the space of water and leak detection to address these claims for multifamily real estate owners. Implementing these types of solutions can have long-term ROI in terms of claims mitigation, improved loss runs and benefit to the property in the form of fewer tenant disturbances.

DATA QUALITY, UNDERWRITING AND IMPACT ON PREMIUMS

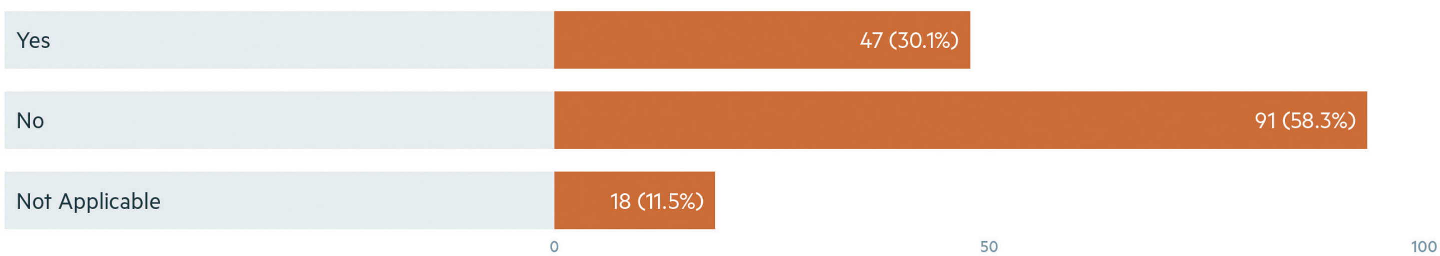
Analysis

Data quality, underwriting information and up-to-date information are essential for insurers to accurately assess risks, provide appropriate coverage and ultimately reduce the potential for losses. Without access to comprehensive underwriting information, insurers may be forced to rely on general assumptions, which can lead to inadequate coverage, over-insuring your assets or higher premiums for real estate firms. As a result, real estate firms need to prioritize providing detailed and accurate underwriting information to insurers to manage risks effectively and minimize costs.

See below for key response feedback in this area.

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

 # OF RESPONDENTS: 156



Impact

- The current market is in a supply-demand crisis, in that supply is waning while demand is rising due to increased building costs and continued development, particularly in the multifamily space. As a result, carriers are receiving more submissions/applications for coverage at a time when they have less capacity to deploy and greater restrictions on how they deploy it.

- The information provided to carriers can have a material impact on cost, capacity and even a carrier's willingness to offer terms. Given the current market, it's essential to stand out from the crowd with a complete submission. This includes providing a statement of values with accurate and robust asset details, including secondary modifiers, roof details, elevation and flood specifics and more, which can elevate your submission and provide a competitive edge. Identifying these key characteristics is an important aspect of a robust submission.

Combating These Challenges: Considerations for Multifamily Owners

- Take the initiative to improve your data quality, improve assets that drive risk modeling and exposure and work with Risk management or broker partners who can advise you on the most efficient steps to improve renewal results.

- Schedule marketing presentation meetings with key carrier partners. Insurance carriers deploy substantial capital to real estate owners, and your operations are directly tied to carrier profitability. Building relationships with insurance markets and providing them with a narrative on your risk management framework is essential in executing a successful renewal in today's environment.

CONCLUSION: CONSIDERATIONS FOR MULTIFAMILY OWNERS IN ENSURING THE SUSTAINABILITY OF THEIR INSURANCE PROGRAMS

The changing insurance landscape means that real estate companies are now forced into the risk management and resilience business.

To curtail higher deductibles and rising insurance costs, multifamily owners must actively manage risk and claims. As outlined in this paper, owners should focus on the following five items to build long-term sustainability in their insurance programs:

1. Create a standard methodology for reporting building insurable values for all assets.
2. Ensure you are working with a knowledgeable insurance broker partner and have a risk management team to access all the appropriate insurance companies across the globe.
3. Explore all emerging insurance solutions (e.g., captives and alternative risk programs).
4. Formalize a standard claims handling procedure, invest in risk management and emphasize CapEx to improve loss history across your portfolio.
5. Consider water/leak detection and fire suppression systems to reduce the frequency and severity of claims.

Review all Phase I Environmental Site Assessments (ESAs) and engineering documents to provide quality building engineering data on all your assets. The Survey findings highlight the benefits of investing in data and technology to improve the quality and accessibility of underwriting information. Real estate firms can leverage data analytics and digital tools to compile detailed Construction Occupancy Protection Exposure (COPE) data and share it with insurers, enabling more accurate risk assessments and potentially reducing insurance costs. Additionally, the Survey findings suggest that real estate firms can benefit from partnering with underwriters who specialize in their property types and can provide tailored risk management solutions.

In summary, the Survey findings emphasize the critical role of providing accurate underwriting information in managing risk and reducing insurance costs for real estate firms. By investing in data and technology and partnering with specialized underwriters, real estate firms can ensure they have the comprehensive and accurate information needed to obtain optimal insurance coverage at the best possible price.

How is Total Cost of Risk (e.g., Premiums/Claims) Internally Allocated?

Total Cost of Risk (TCOR) is an important metric companies use to determine the overall cost of their risk management programs, including insurance premiums, claims and other related expenses. However, allocating TCOR internally can be a complex and challenging process, as different lines of coverage and entities within a company may have different levels of exposure and risk.

Based on a survey of responses from various companies, it appears that TCOR is generally allocated internally in one of several ways. In some cases, premiums and claims are allocated pro rata by values, such as each property's total insurable value (TIV) or the number of units. Other companies allocate premiums and claims based on the exposure basis used in rating insurance policies, such as by occupancy or risk factors like wind, earthquake or flood.

The allocation of TCOR may also depend on the line of coverage and who is benefiting. For example, property, casualty and pollution coverage may be allocated to operational and fee-managed assets, while cyber coverage may be allocated to operational assets and corporate entities. Executive insurance lines may not be allocated to communities, while environmental premiums may be allocated based on the percentage of overall TIV.

Some companies allocate TCOR on a per-property basis, either individually or based on value per square foot. Others allocate TCOR by building, location or community/construction project. In some cases, a rate matrix and per-property deductible may be used to allocate costs, while in others, premiums may be allocated based on the actual premium paid by each property. Some companies allocate TCOR on a deal-by-deal basis or by project.

Despite these variations in how TCOR is allocated internally, many companies rely on the guidance of insurance brokers or consultants to determine the best approach. They may also analyze losses, risk assessments and carrier allocations or guidance to inform their allocation decisions.

In summary, allocating TCOR internally can be a complex and multifaceted process, depending on each company's specific needs and circumstances. Ultimately, the goal is to ensure that costs are allocated fairly and equitably, considering each entity or property's relative exposure and risk within the company's portfolio.

TCOR: Please provide the dollar amount spent in the calendar year 2022 on the following categories.
Based on the Survey results, the average amount spent on commercial insurance premiums, letters of credit and other insurance costs in 2022 was $8,144,059.

The average amount spent on retained losses was $1,153,205.

The average amount spent on risk management department and administration costs — including salaries, training and software — was $336,967.

The average amount spent on outside service fees — including third-party administrators, actuaries, lawyers, brokers and consultants — was $248,658.

These findings suggest companies are spending a significant amount of money on insurance and risk management. This underscores the importance of these functions in modern businesses. However, it is also worth noting that the wide range of spending highlights the variability of companies' insurance and risk management needs. Organizations should take a strategic approach to insurance and risk management to ensure they are adequately protected while avoiding unnecessary costs.

A 2018 study by Deloitte revealed that companies are increasingly investing in risk management, including technology, data analytics and personnel. This study highlighted the benefits of a holistic approach to risk management, including identifying and assessing risks, developing risk management strategies and monitoring risk performance. Another study by Marsh and RIMS (2018) showed that companies are increasingly using technology to manage risk, with artificial intelligence, machine learning and other tools playing a growing role in risk management.

2

SECTION 2

FULL RESULTS OF NMHC'S MULTIFAMILY RISK SURVEY

COMPANY INFORMATION

Please select if your company owns or manages apartment units (rented units in buildings with five units or more)

 # OF RESPONDENTS: 158

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

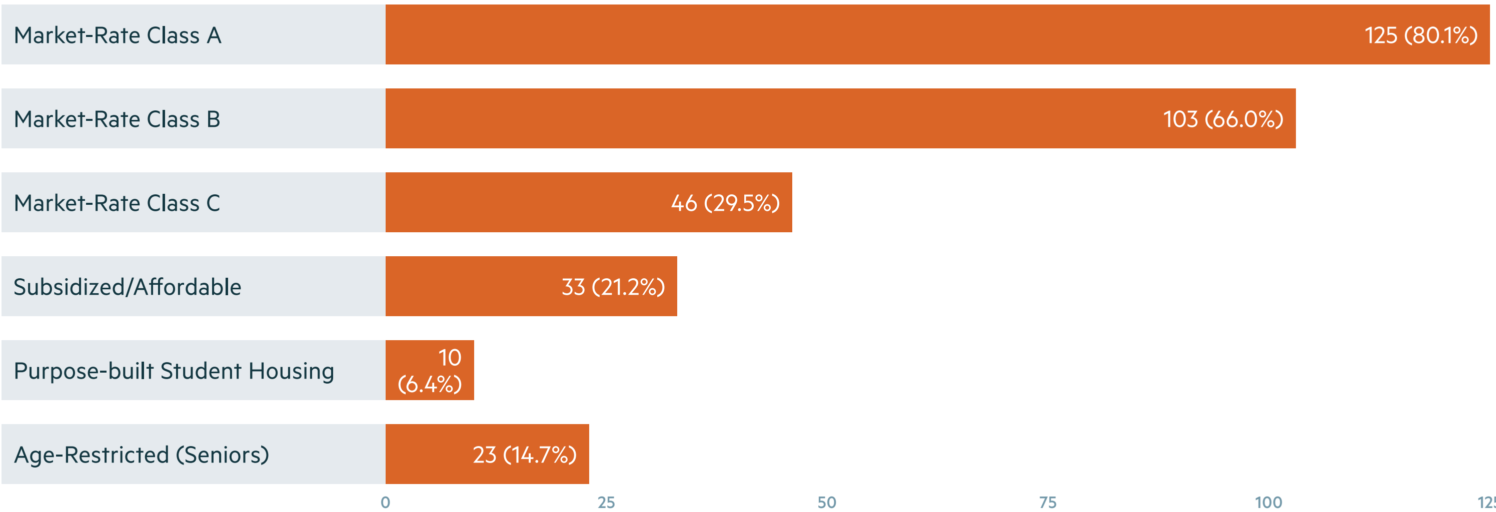
Average	18,973
Median	6,500
Sum	1,536,842

Where are the owned units located? Where are the managed units located?

STATE	OWN	MANAGE
Alabama	17	11
Alaska	ND	ND
Arizona	44	29
Arkansas	11	6
California	44	28
Colorado	47	28
Connecticut	10	9
Delaware	ND	ND
Florida	73	41
Georgia	65	33
Hawaii	ND	ND
Idaho	6	6
Illinois	26	17
Indiana	22	12
Iowa	7	ND
Kansas	14	10
Kentucky	17	13
Louisiana	13	11
Maine	ND	ND
Maryland	31	24
Massachusetts	27	16
Michigan	16	10
Minnesota	19	6
Mississippi	10	7
Missouri	23	13
Montana	ND	ND
Nebraska	ND	ND
Nevada	18	14
New Hampshire	ND	ND
New Jersey	13	10
New Mexico	9	ND
New York	24	12
North Carolina	54	27
North Dakota	ND	ND
Ohio	21	12
Oklahoma	11	7
Oregon	23	11
Pennsylvania	17	13
Rhode Island	6	5
South Carolina	35	20
South Dakota	ND	0
Tennessee	36	22
Texas	79	42
Utah	15	6
Vermont	0	0
Virginia	41	24
Washington	37	16
West Virginia	ND	5
Wisconsin	6	5
Wyoming	ND	ND

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

 # OF RESPONDENTS: 156

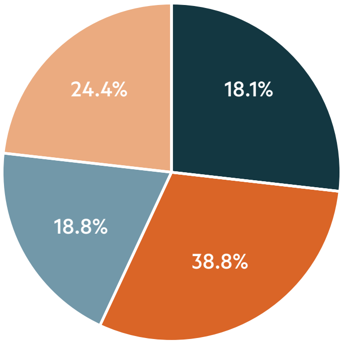


What is the total insured value (TIV) of these apartments?

# OF RESPONDENTS: 129	
Average	$2,128,742,136
Median	$968,000,000

GENERAL RISK MANAGEMENT QUESTIONS

Does your firm have an in-house risk management department/individual?
 # OF RESPONDENTS: 160



- No, we contract with an outside entity (29)
- No, we don't have a dedicated in-house risk management department/individual, but it is absorbed into an existing employee's role (62)
- Yes, we have a dedicated in-house risk management individual (30)
- Yes, we have a dedicated in-house risk management department (39)

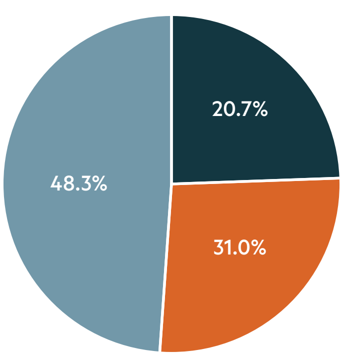
Number of risk management staff (only asked of those who answered "Yes, we have a dedicated in-house risk management department")

# OF RESPONDENTS: 32	
Median	3.7
Average	3.0

Who does the risk management staff report to? (only asked of those who answered "Yes, we have a dedicated in-house risk management department")

# OF RESPONDENTS: 25	
Chief Operating Officer	5 (20.0%)
Chief Financial Officer/Chief Administrative Officer	7 (28.0%)
Legal/General Counsel	6 (20.0%)
Other	8 (32.0%)

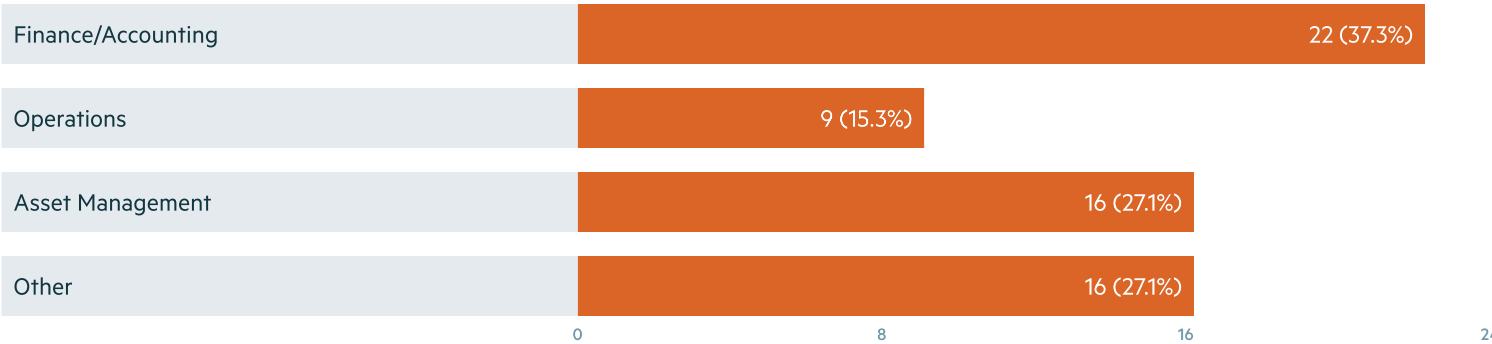
Who does the risk management individual report to? (only asked of those who answered "Yes, we have a dedicated in-house risk management individual)
 # OF RESPONDENTS: 29



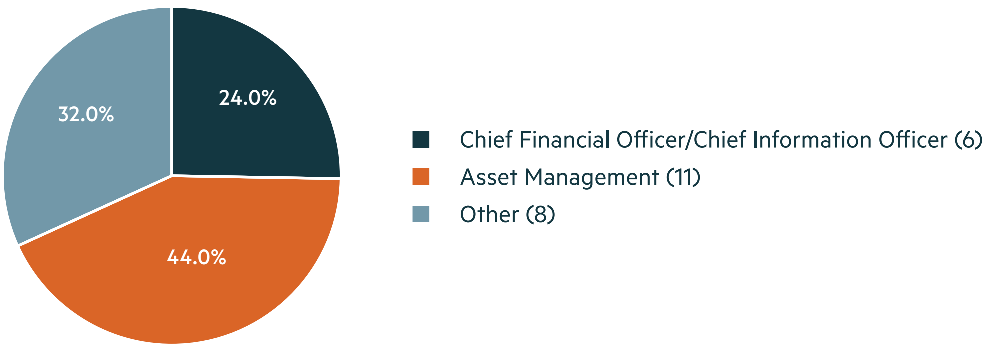
- General Counsel/Legal (6)
- CEO/Chairman/President/Owner (9)
- Finance/CFO/COO (14)

What department is the employee located in? (Asked of those who answered "No, we don't have a dedicated in-house risk management department/individual, but it is absorbed into an existing employee's role)

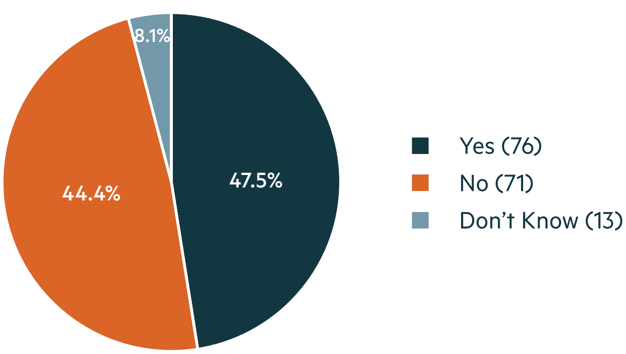
 # OF RESPONDENTS: 59



What internal department/position does this outside entity report to? (Asked only of those who answered "No, we contract with an outside entity")
 # OF RESPONDENTS: 25

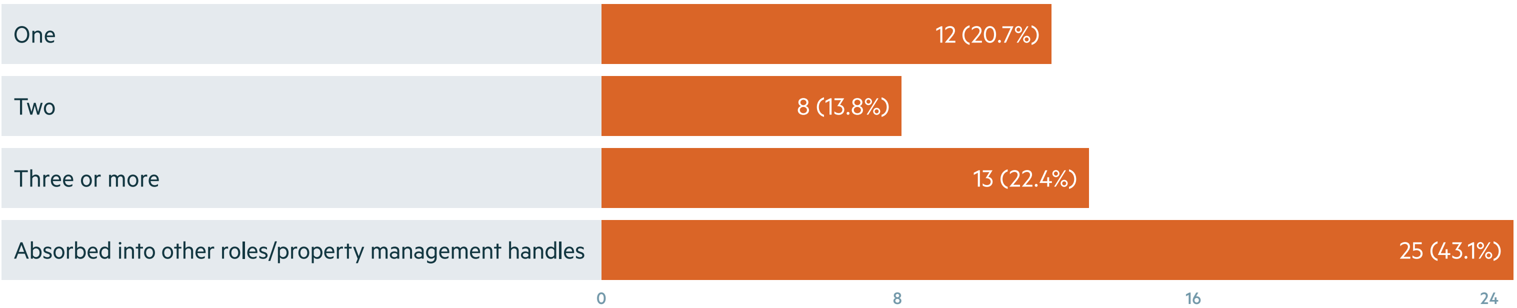


Do you handle crime and property safety issues in-house?
 # OF RESPONDENTS: 160



Please describe how many people are in the Safety department (Asked of those who answered "Yes" to "Do you handle crime and property safety issues-in-house?")

 # OF RESPONDENTS: 58



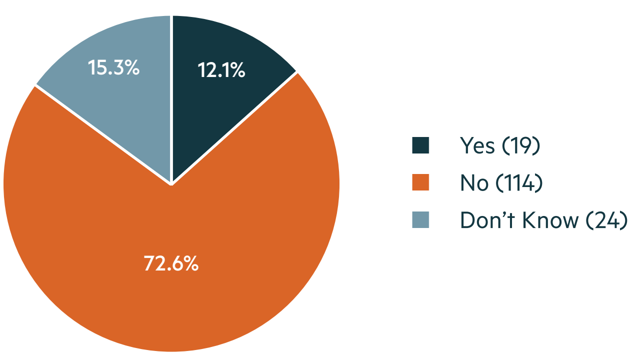
How many insurance brokers/consultants do you use?

# OF RESPONDENTS: 160	
One	73 (45.6%)
Two	48 (30.0%)
Three or More	35 (21.9%)
None	ND
Other	ND

How do you compensate insurance brokers/consultants? Please select all that apply. (Only asked of those who answered that they use one or more broker)

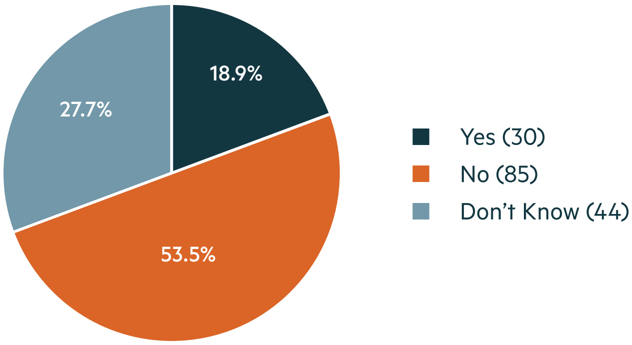
 # OF RESPONDENTS: 153

Is broker/consultant compensation subject to incentive or reduction based on performance? (Only asked of those who answered that they use one or more broker)
 # OF RESPONDENTS: 157



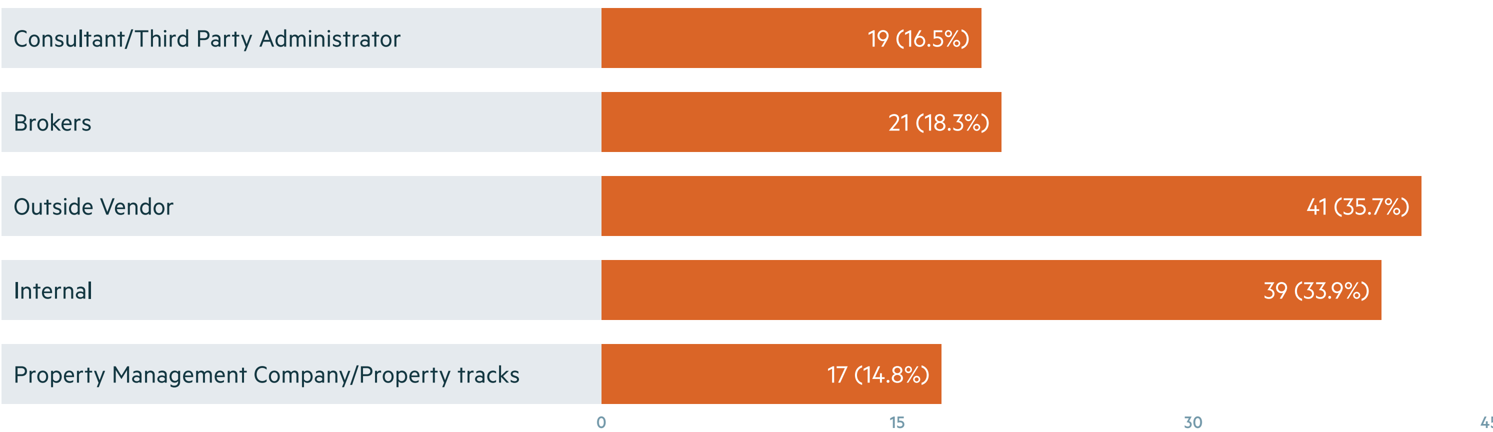
Do you have a RMIS (Registry Monitoring Insurance Services) system?

 # OF RESPONDENTS: 159



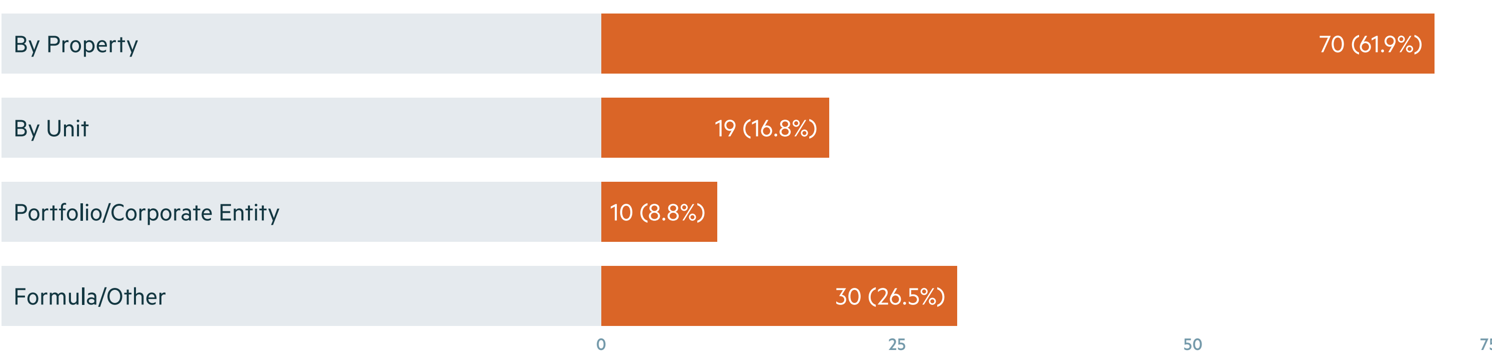
Please describe how you are handling third-party insurance compliance.

 # OF RESPONDENTS: 115



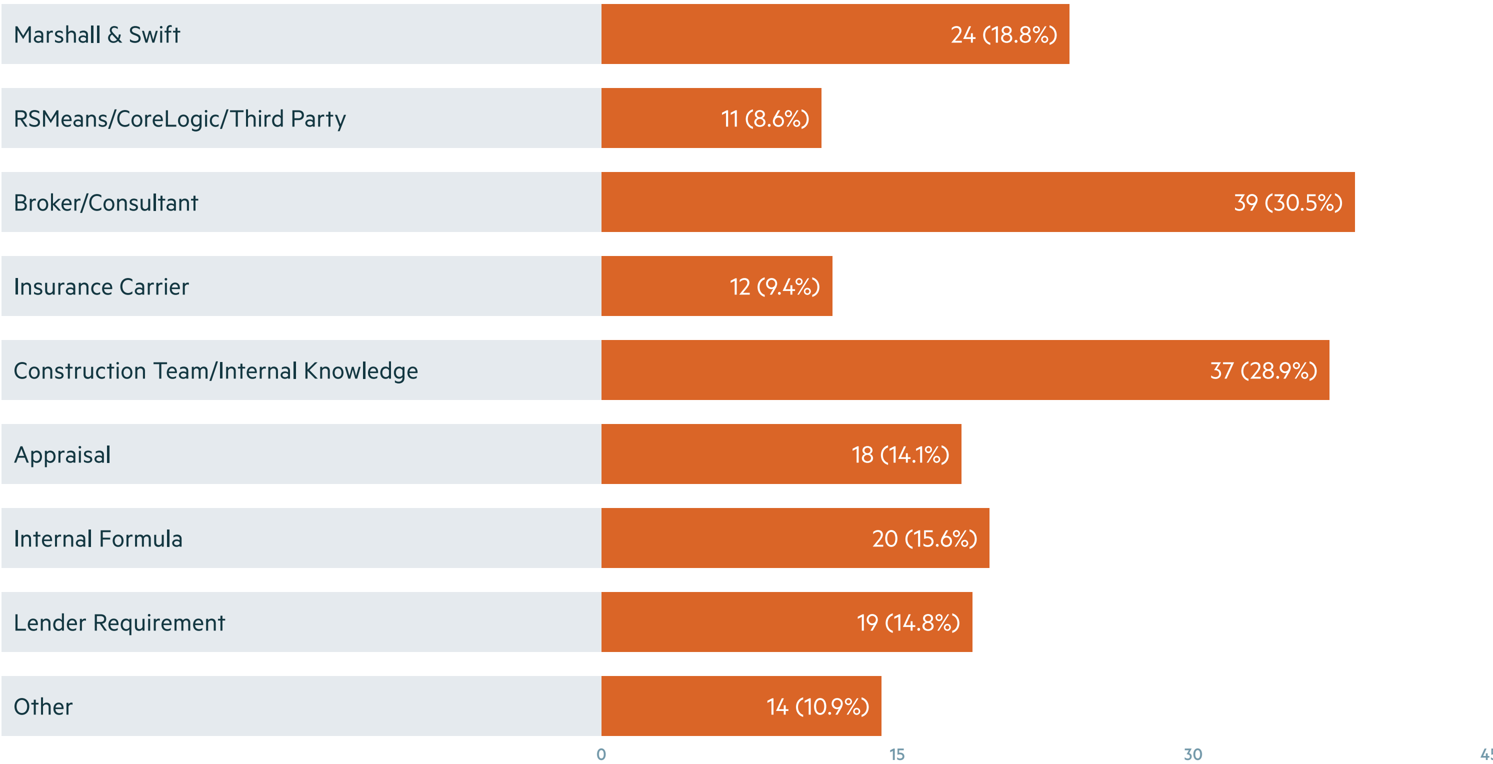
How is Total Cost of Risk (premiums/claims, etc.) internally allocated?

 # OF RESPONDENTS: 113



What is your process for insurable replacement cost evaluation?

 # OF RESPONDENTS: 128



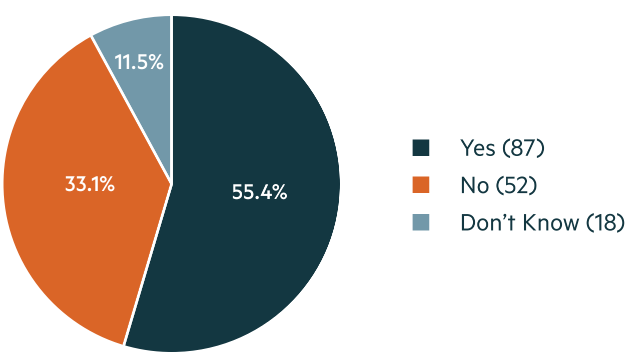
Do you have an in-house Legal department?

Yes	76
No	83
Don't Know	ND

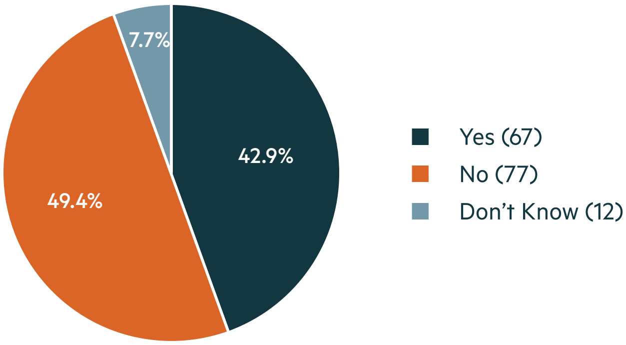
# of respondents not provided to preserve confidentiality

Do you have a formal Crisis Management Plan?

 # OF RESPONDENTS: 157



Do you have a Crisis Management Team?
 # OF RESPONDENTS: 156



Is Risk Management represented on your Crisis Management Team? (Asked of those who answered "Yes" to "Do you have a Crisis Management Team"?)

# OF RESPONDENTS: 67	
Yes	56 (83.6%)
We do not have an internal risk management department/individual	6 (9.0%)
No, they are not represented	ND
Don't know	ND

Do you have a Safety Committee?

# OF RESPONDENTS: 158	
Yes	43 (27.2%)
No	96 (60.8%)
Don't Know	19 (12.0%)

Is Risk Management represented on your Safety Team? (Asked only of those who answered "Yes" to "Do you have a Safety Committee"?)

# OF RESPONDENTS: 42	
Yes	30 (71.4%)
We do not have an internal risk management department/individual	7 (16.7%)
No	ND
Don't Know	ND

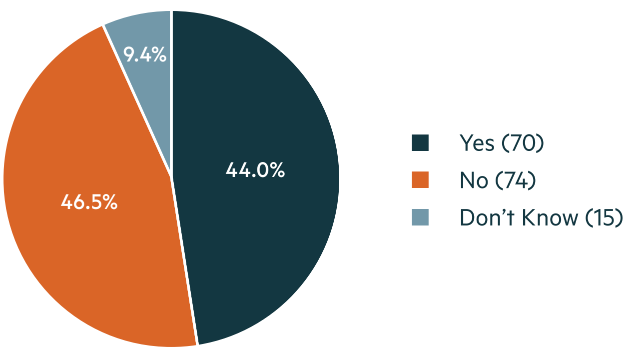
Please rate how much support Senior Management gives the Risk Management function (responses will be kept completely confidential and not attributed to any individual respondent):

# OF RESPONDENTS: 155	
A lot of support	85 (54.8%)
Some support	45 (29.0%)
Minimal/No Support	8 (5.2%)
Neutral	17 (11.0%)

Where is ownership of Cyber Risk in your firm?

# OF RESPONDENTS: 157	
Chief Operating Officer/Chief Financial Officer	28 (17.8%)
Community Technology Department/General Counsel	5 (3.2%)
IT Department	76 (48.4%)
Risk Management	17 (10.8%)
Third Party Company/Outsourced	9 (5.7%)
Other	22 (14.0%)

Other than procuring insurance, is Risk Management involved in managing Cyber Risk exposures?
 # OF RESPONDENTS: 159



RENTERS INSURANCE

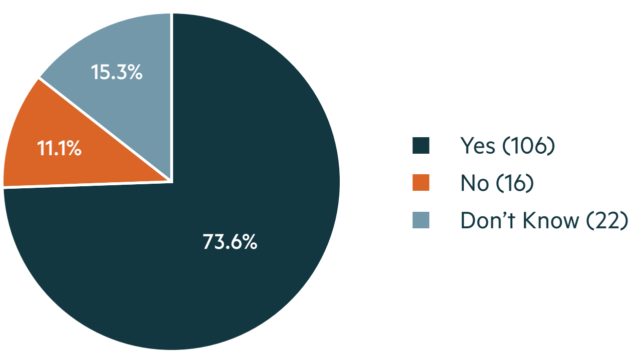
Do you require renters insurance?

# OF RESPONDENTS: 160	
Yes	135 (84.4%)
Varies by jurisdiction	11 (6.9%)
No/Don't Know	14 (8.8%)

What are the limits? (Asked for those who answered "Yes" or "Varies by jurisdiction/where allowed" to "Do you require renters insurance?")

# OF RESPONDENTS: 115	
Varies	8 (7.0%)
$100,000	86 (74.8%)
$300,000	8 (7.0%)
$1,000,000	5 (4.3%)
None/Other	7 (6.1%)
Don't Know/Unsure	7 (6.1%)

Do you require your firm to be listed as an "Additional Interest" on the policy? (Asked for those who answered "Yes" or "Varies by jurisdiction/where allowed" to "Do you require renters insurance?")
 # OF RESPONDENTS: 144



Does your company verify renters insurance placement upon lease renewal? (Asked for those who answered "Yes" or "Varies by jurisdiction/where allowed" to "Do you require renters insurance?")

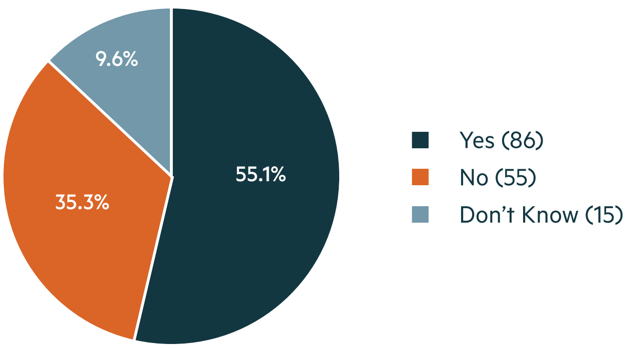
# OF RESPONDENTS: 145	
Yes	126 (86.9%)
No/Don't Know	19 (13.1%)

Please describe your process for annual compliance/lease renewals: (Asked only for those who answered "Yes" or "Varies by jurisdiction/where allowed" to "Do you require renters insurance?")

# OF RESPONDENTS: 100	
Property Manager Responsible For/Verification Produced by Resident	45 (45.0%)
Third Party Vendor/Software System/Property Management Software Tracks	39 (39.0%)
Forced Place Policy	18 (18.0%)
Other	15 (15.0%)
Unsure	5 (5.0%)

Does your company have a preferred renters insurance provider?

 # OF RESPONDENTS: 156



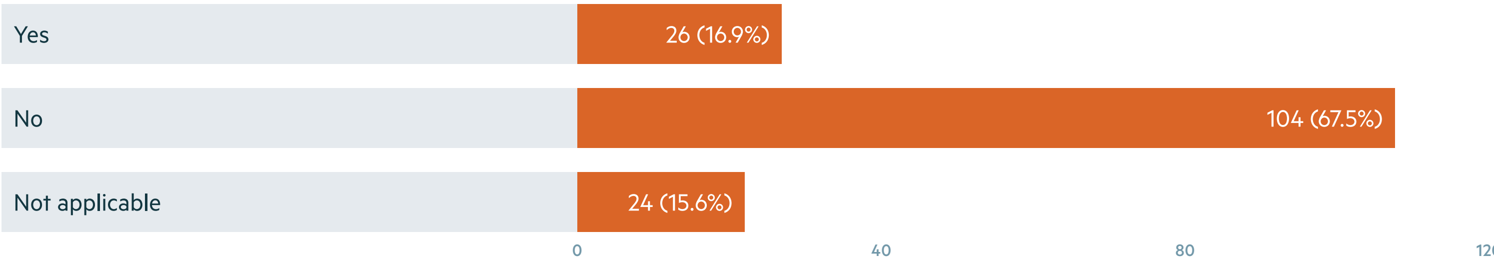
What is the name of the preferred rental insurance provider? (Asked only for those who answered "Yes" to "Does your company have a preferred renters insurance provider")

# OF RESPONDENTS: 76	
Assurant	11 (14.5%)
Internal Captive	6 (7.9%)
eRenter	13 (17.1%)
ePremium	12 (15.8%)
Renters Legal Liability	5 (6.6%)
Yardi	13 (17.1%)
Other	20 (26.3%)

ALTERNATIVE RISK FINANCING

Is Captive insurance used on any lines of coverage in your portfolio?

 # OF RESPONDENTS: 154



What lines of coverage include Captive insurance? Please select all that apply. (Asked for those who answered "Yes" to "Is Captive insurance used on any lines of coverage in your portfolio?)

 # OF RESPONDENTS: 24

Renters' Insurance	16 (66.7%)
Liability	11 (45.8%)
Workers' Compensation	7 (29.2%)
Umbrella	ND
Excess Liability	ND
Earthquake	ND
Terrorism	ND
D&O (Directors & Officers)	ND
Employment Practices	ND
Cyber Risk	0
Crime	0
Professional Liability	ND
Environmental	ND
Property	9 (37.5%)
Other	ND

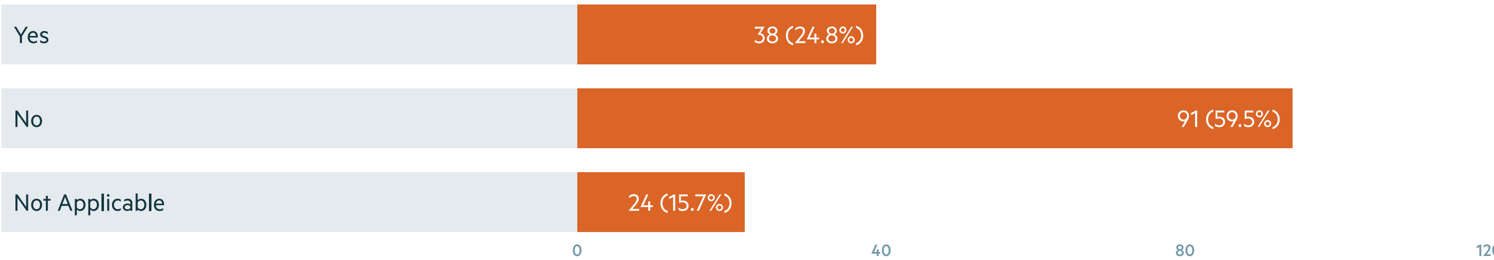
Do you procure parametric products?

Yes	ND
No	102
Not applicable	51

# of respondents not provided to preserve confidentiality

Do you have a self-insured reserve fund to cover large deductibles/retentions?

 # OF RESPONDENTS: 153



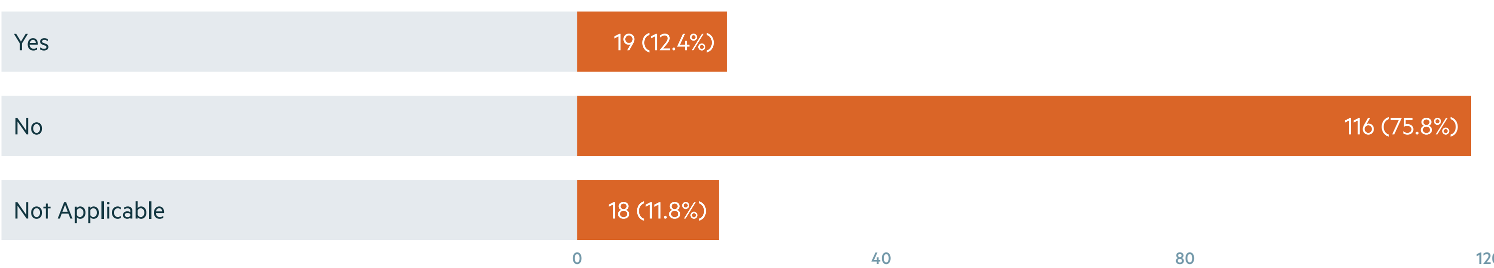
Do you have catastropic bonds?

Yes	ND
No	131
Not applicable	21

# of respondents not provided to preserve confidentiality

Do you participate in group pooling?

 # OF RESPONDENTS: 153



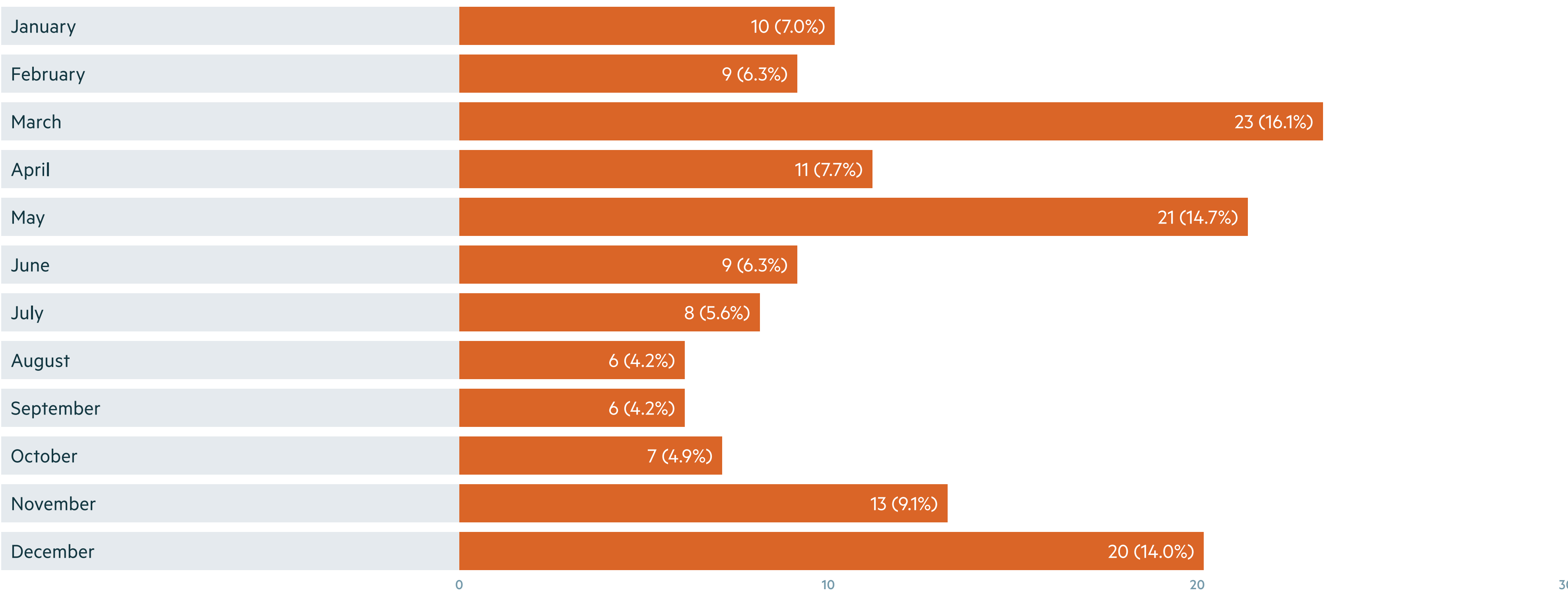
INSURANCE COVERAGE INFORMATION

PERCENT CHANGE FROM PREVIOUS YEAR

	Property	Liability	Worker's Compensation	Umbrella	Excess Liability	Earthquake	Terrorism	Directors & Officers	Employment Practices	Cyber	Crime	Professional Liability	Environmental
No. of Firms	63	56	42	44	28	15	24	32	31	41	40	30	21
Average	26.4%	14.7%	0.5%	16.6%	7.5%	14.9%	6.2%	-0.8%	7.0%	24.4%	4.7%	9.1%	7.2%
Median	20.0%	10.0%	2.5%	10.0%	6.5%	10.0%	0.0%	2.0%	5.0%	10.0%	4.0%	6.0%	0.0%
Min	-8.0%	-27.2%	-50.0%	-14.0%	-33.3%	-20.0%	-22.0%	-38.0%	-26.0%	-80.0%	-18.0%	-50.0%	-6.0%
Max	120.0%	133.0%	90.0%	226.0%	68.0%	55.0%	80.0%	19.0%	65.0%	220.0%	25.0%	122.0%	70.0%

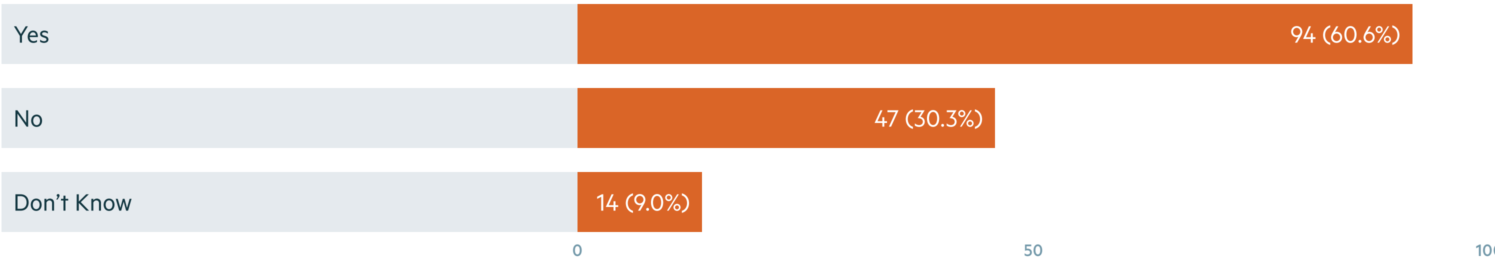
Please select your typical policy renewal month:

 # OF RESPONDENTS: 143



Have you been forced to increase your deductible in the past three calendar years to maintain affordability?

 # OF RESPONDENTS: 155

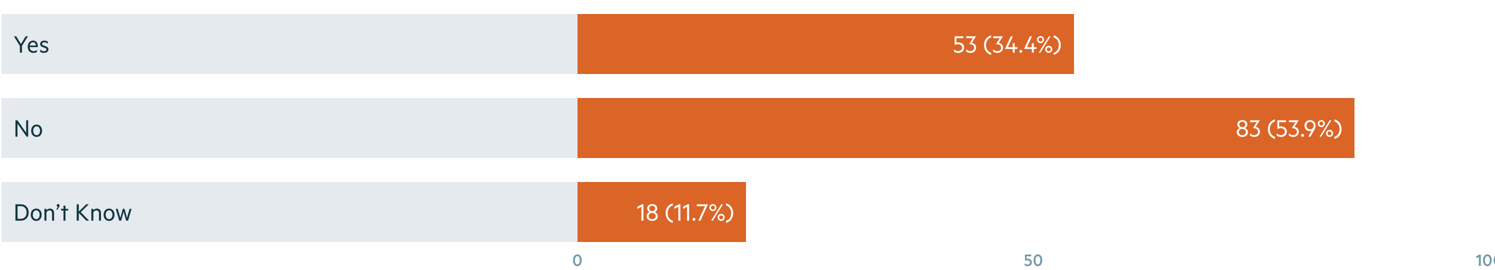


Which line of coverage did you need to increase your deductible for? Please select all that apply. (Asked for respondents who answered "Yes" to "Have you been forced to increase your deductible in the past three calendar years to maintain affordability?)

# OF RESPONDENTS: 92	
Property	77 (83.7%)
Liability	42 (45.7%)
Umbrella	12 (13.0%)
Excess Liability	7 (7.6%)
Workers' Compensation	7 (7.6%)
Earthquake	7 (7.6%)
Terrorism	ND
D&O (Directors & Officers)	10 (10.9%)
Employment Practices	9 (9.8%)
Cyber Risk	10 (10.9%)
Crime	ND
Professional Liability	7 (7.6%)
Environmental	ND
Other	7 (7.6%)

Has your insurance carrier limited or reduced your coverage amounts in the past three calendar years?

 # OF RESPONDENTS: 154



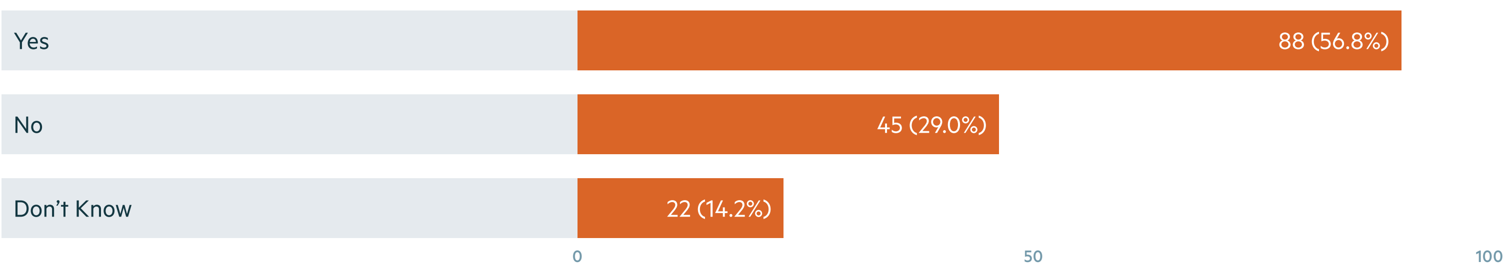
Which line of coverage did your insurance carrier reduce or limit coverage amounts on? (Asked for respondents who answered “Yes” to “Has your insurance carrier limited or reduced your coverage amounts in the past three calendar years?)

 # OF RESPONDENTS: 51

Property	37 (72.5%)
Liability	13 (25.5%)
Workers’ Compensation	0
Umbrella	9 (17.6%)
Excess Liability	8 (15.7%)
Earthquake	ND
Terrorism	0
D&O (Directors & Officers)	ND
Cyber Risk	5 (9.8%)
Employment Practices	ND
Crime	ND
Professional Liability	0
Environmental	ND
Other	ND

Has your insurance carrier included new policy limitations to reduce their exposure in the past three years?

 # OF RESPONDENTS: 155



Which lines of coverage did your insurance carrier include new policy limitations for? Please select all that apply. (Asked for respondents who answered “Yes” to “Has your insuance carrier limited or reduced your coverage amounts in the past three calendar years?)

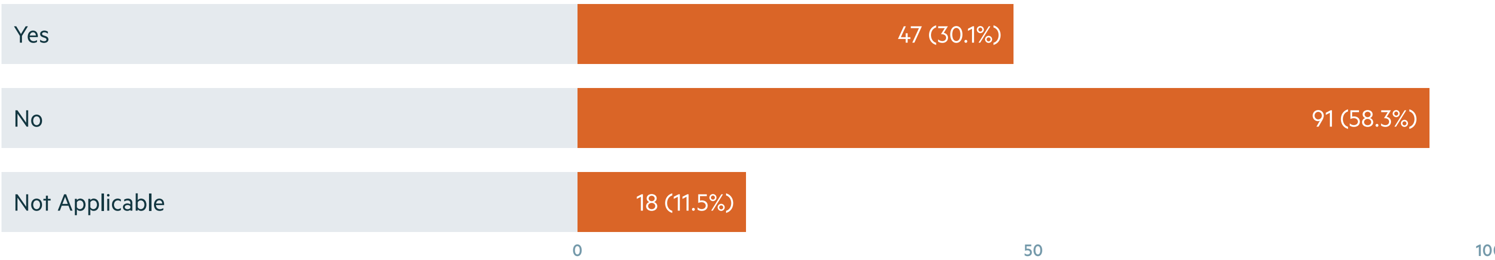
 # OF RESPONDENTS: 84

Property	61 (72.6%)
Liability	43 (51.2%)
Workers’ Compensation	ND
Umbrella	14 (16.7%)
Excess Liability	13 (15.5%)
Earthquake	5 (6.0%)
Terrorism	ND
D&O (Directors & Officers)	7 (8.3%)
Cyber Risk	14 (16.7%)
Employment Practices	ND
Crime	7 (8.3%)
Professional Liability	6 (7.1%)
Environmental	ND
Other	7 (8.3%)

CATASTROPHES/NATURAL DISASTERS

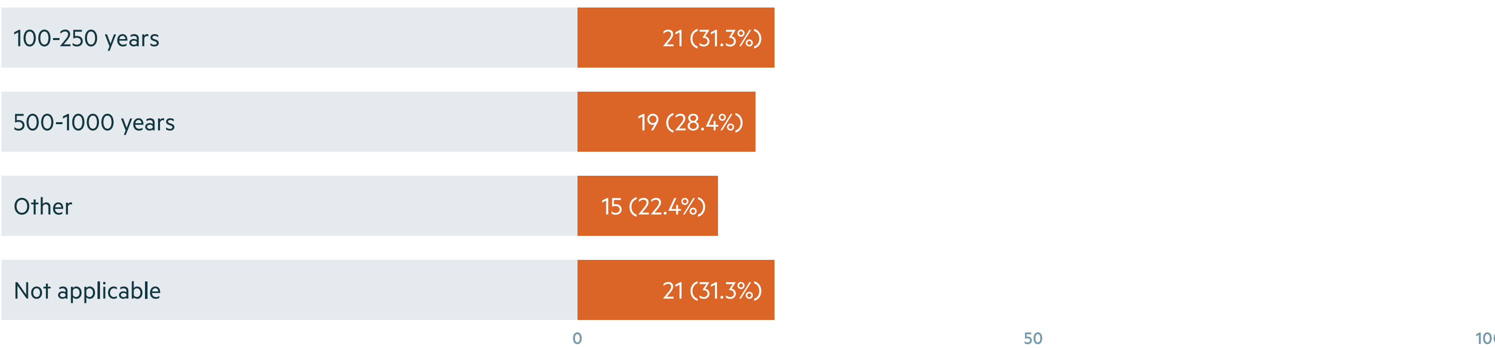
Do you use Risk Modeling Software (RMS) or other modeling software?

 # OF RESPONDENTS: 156



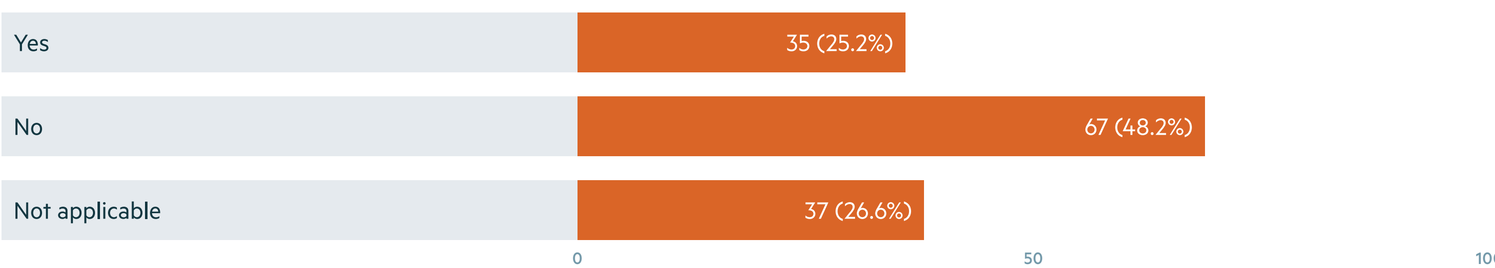
What return period for earthquake (EQ) and wind coverage do you use?

 # OF RESPONDENTS: 67



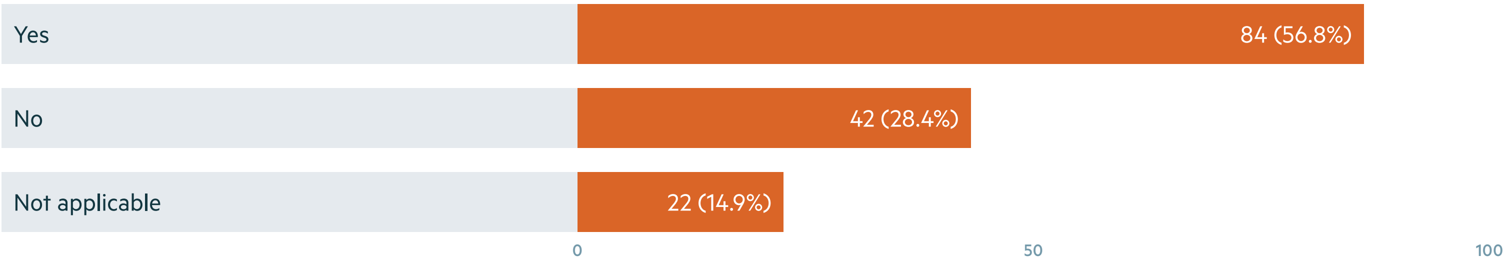
Do you collect secondary characteristics for Earthquake (EQ) and wind coverage?

 # OF RESPONDENTS: 139



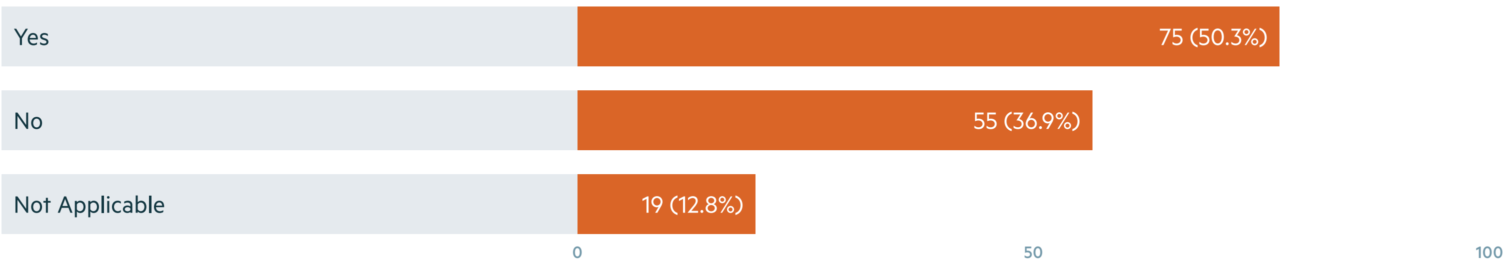
Is coverage for Flood Zone A and V (100-year flood plain) included in your all-risk policy?

 # OF RESPONDENTS: 148



Do you have a Named Storm deductible that effects flood coverage?

 # OF RESPONDENTS: 149

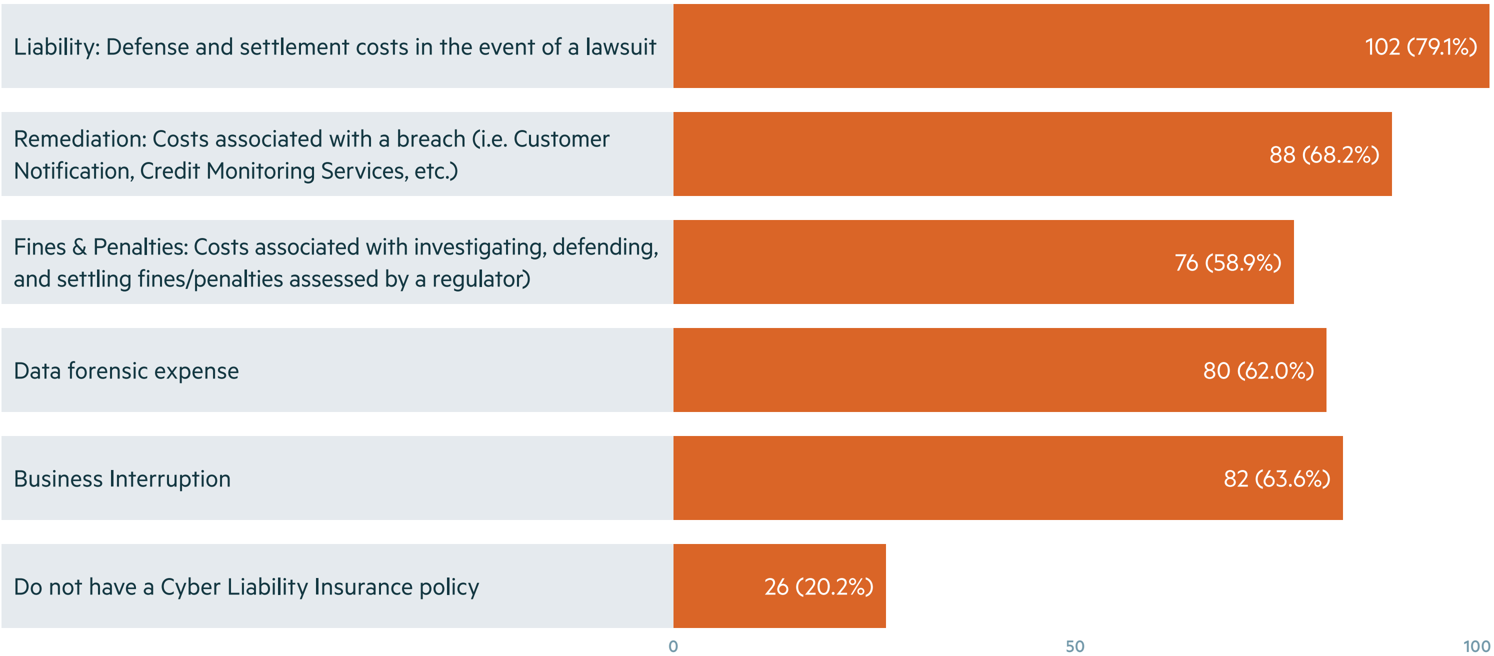


What percentage of the portfolio is in an area that had a named storm in the last 3 calendar years?

Count	121
Average	20.7%
Median	10.0%

What types of events does your Cyber Liability policy cover?

 # OF RESPONDENTS: 129



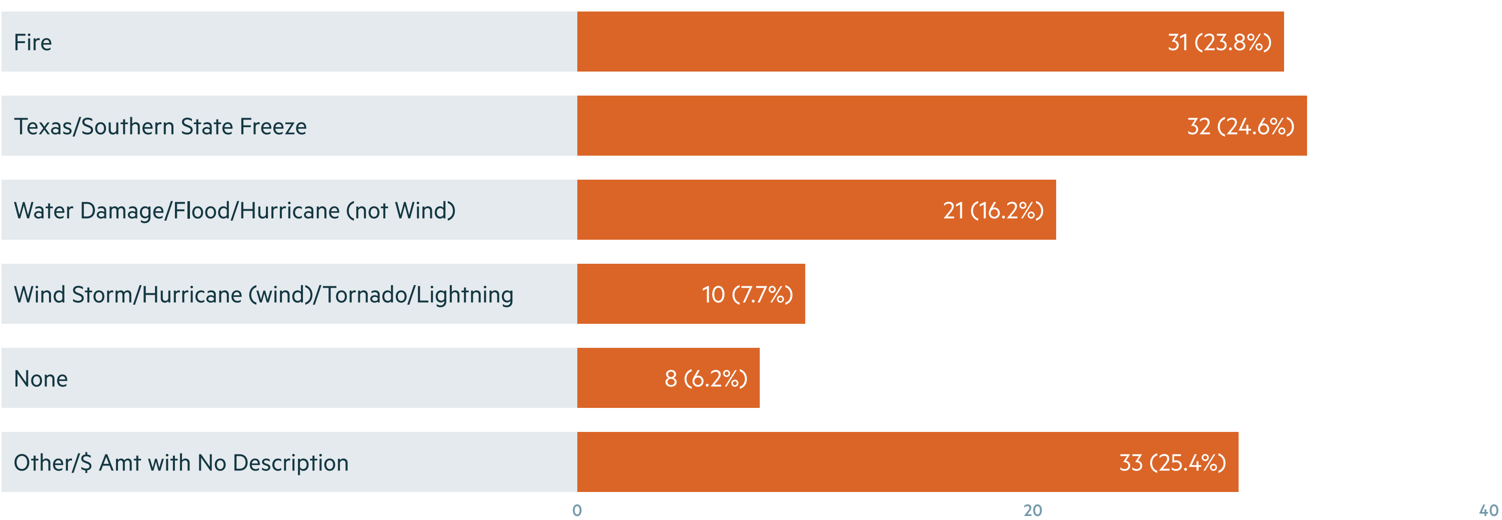
CLAIMS

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%)

What is the largest loss in the last three years?

 # OF RESPONDENTS: 130

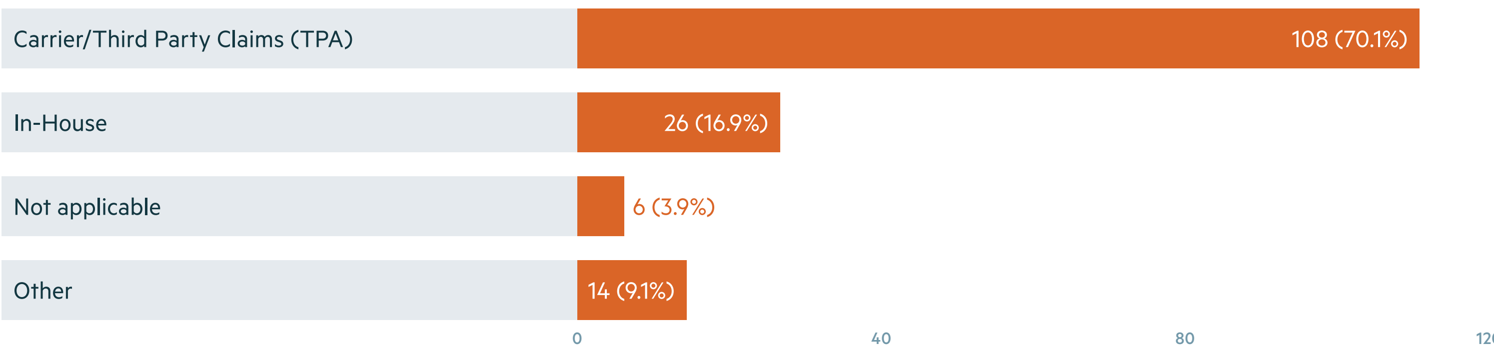


Please list the number of losses greater than $100,000, by line of coverage in the last three calendar years.

	TOTAL	NO. OF FIRMS	AVERAGE PER FIRM
Property	492	61	8.1
Liability	110	26	4.2
Workers Compensation	9	7	1.3
Builders Risk/Construction	ND	ND	ND
Environmental/Pollution	ND	ND	ND
Unknown Line of Coverage	190	26	7.3
Not applicable/None		13	

How are claims handled?

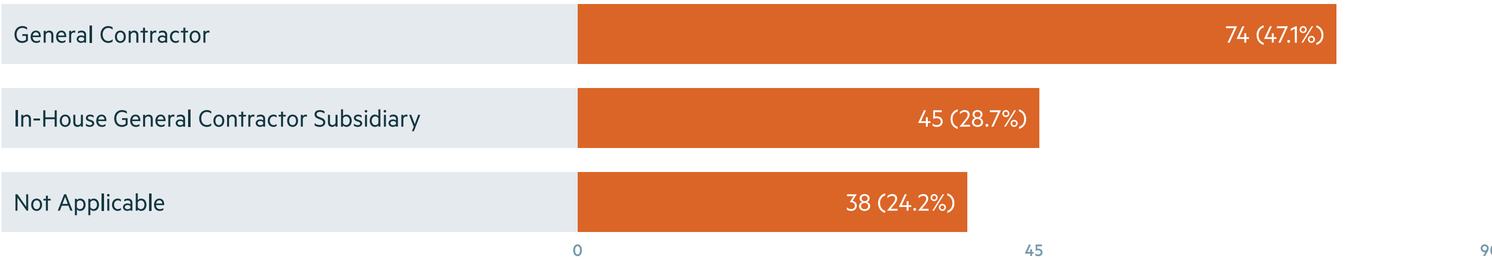
 # OF RESPONDENTS: 154



CONSTRUCTION

Who performs construction operations?

 # OF RESPONDENTS: 157

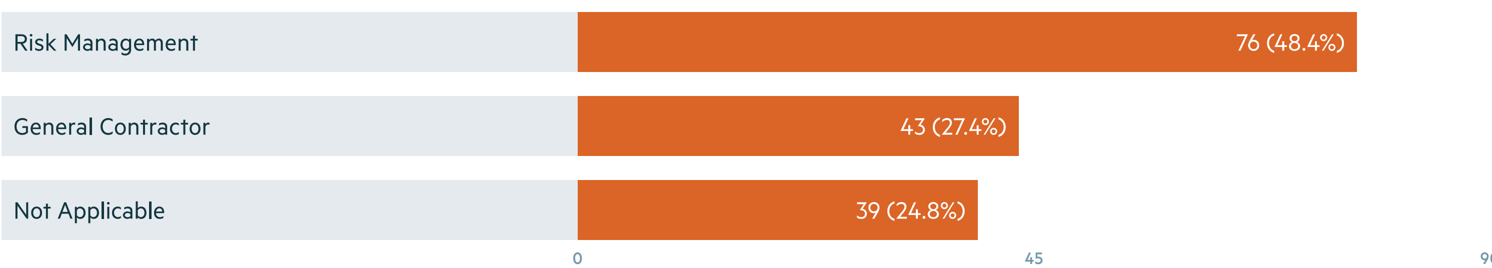


Does Risk Management manage construction risks and/or construction safety?

 # OF RESPONDENTS: 157

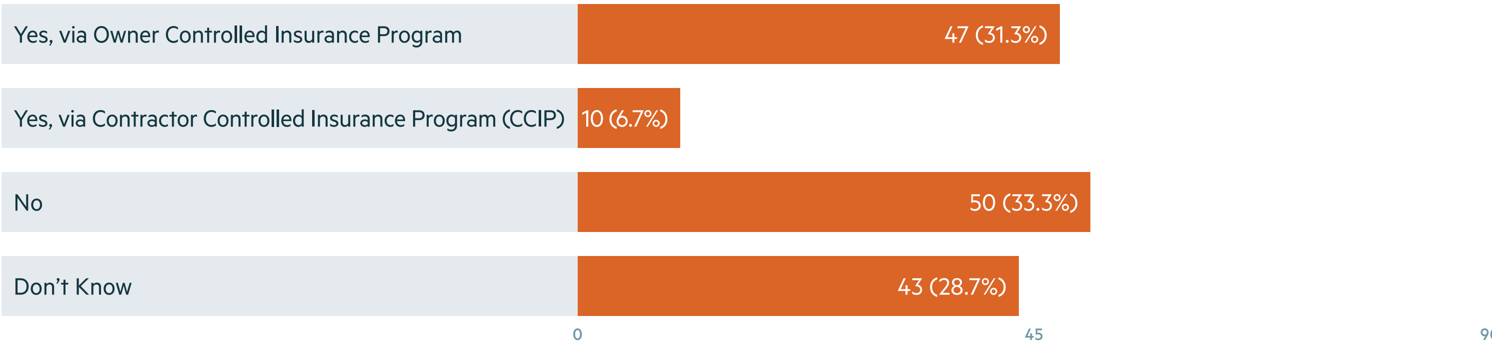
Who procures the construction insurance/builder's risk policies?

 # OF RESPONDENTS: 157



Do you procure insurance via an Owner Controlled Insurance Program (OCIP) or Contractor Controlled Insurance Program (CCIP)?

 # OF RESPONDENTS: 150

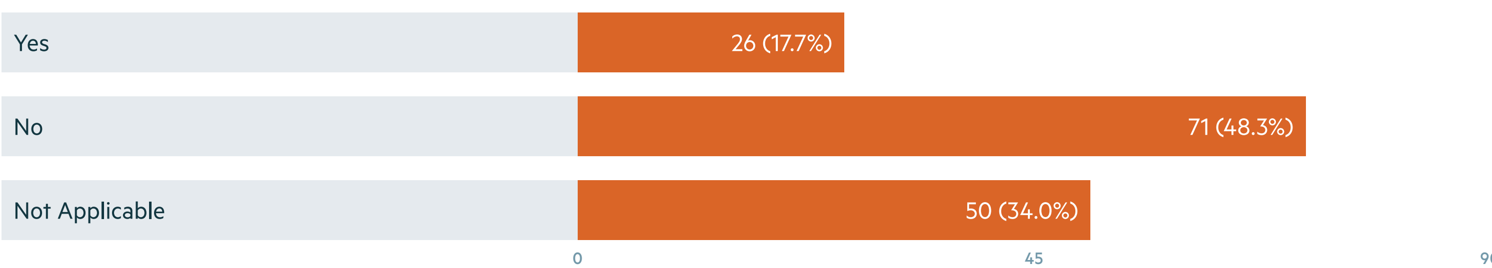


Do you procure contractors pollution liability coverage?

 # OF RESPONDENTS: 147

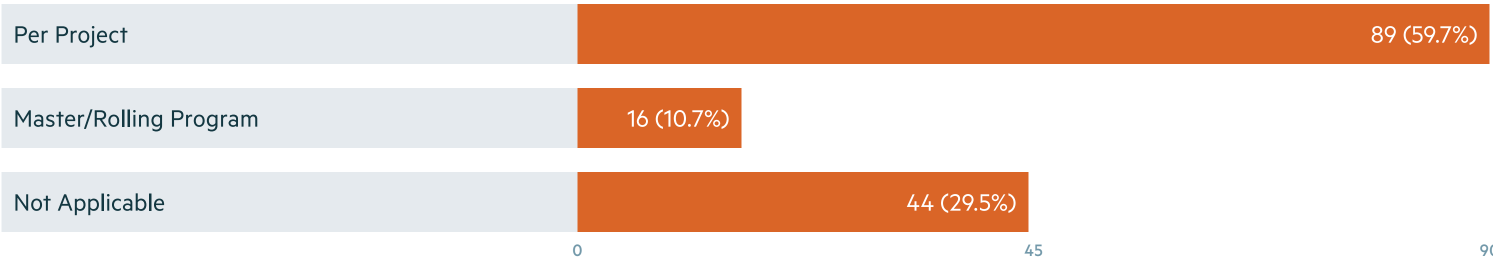
Do you procure Owner's Protective Professional Indemnity (OPPI)?

 # OF RESPONDENTS: 147



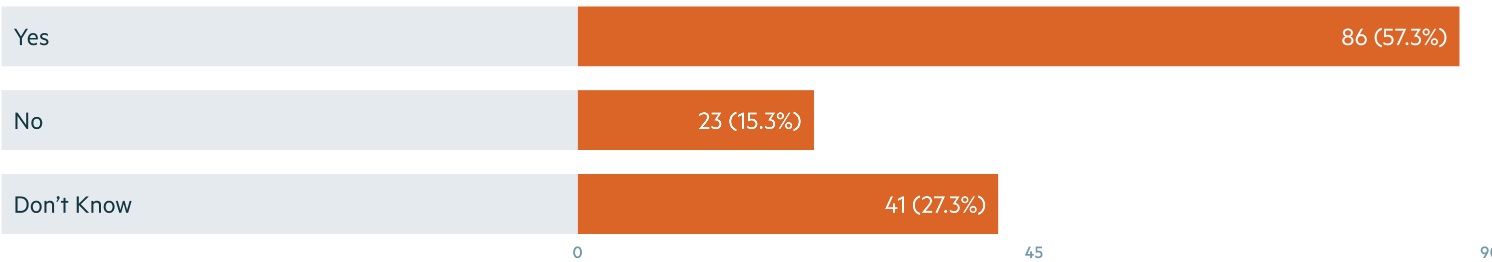
Generally speaking, is construction insurance procured per project or on a master/rolling program?

 # OF RESPONDENTS: 149



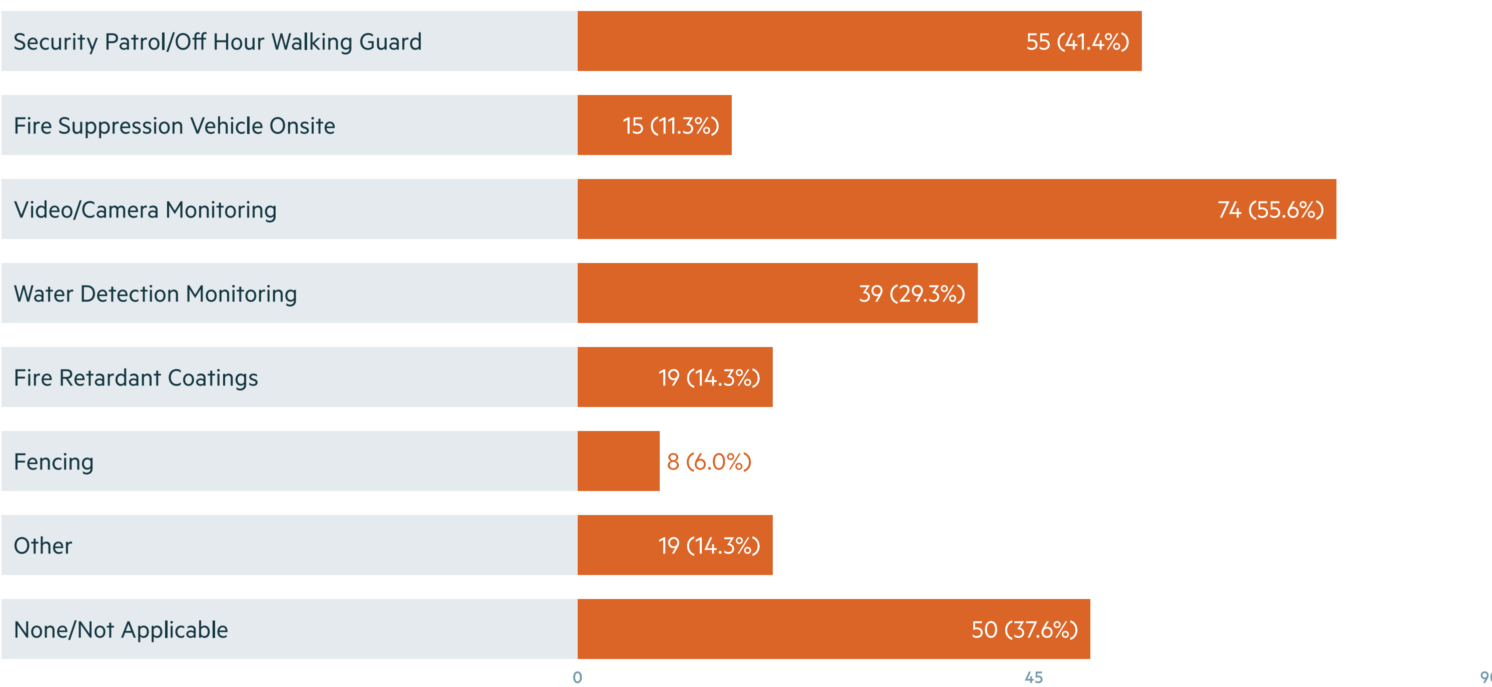
Are you experiencing difficult market conditions with strict subjectivities?

 # OF RESPONDENTS: 150



Please select all comprehensive security/fire protection measures that the Builder's Risk carrier is often requiring:

 # OF RESPONDENTS: 133



TOTAL COST OF RISK

Please provide the dollar amount spent in calendar year 2022 on the following categories:

	Insurance Costs	Retained Losses	Risk Management Department/Admin Costs (Salaries, Training, Risk Management Software, Travel, Etc)	Outside Service Fees (Third-Party Administrator, Actuarial, Legal, Brokers, Consultants, Etc)
Count	96	63	65	69
Average	$8,144,059	$1,153,205	$336,967	$248,658
Median	$3,850,000	$242,891	$150,000	$50,000

NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

NMHC.ORG