How the insurance crisis threatens affordable housing development

An interview with two affordable housing developers

by Moira Birss with Brendan Mitchell and Seana O'Shaugnessy
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Key Takeaways

- A dominant narrative about the insurance crisis is that it's homeowners who're suffering. That's true, but it's not the full story.
- Insurance costs are becoming such a large part of the budgets of affordable housing developers and managers that it's forcing them to reconsider building new projects. That means fewer affordable housing units available, even as the affordable housing crisis grows.
- And even in existing affordable housing buildings, the rising cost of insurance is making it harder to afford green retrofits–even ones that would save them money, like solar panels.
- What's needed is a "radical reimagining" of how affordable housing finance, including insurance, works, and courage from policymakers to find real solutions that actually allow them to serve communities in need.

Brendan Mitchell and Seana O'Shaugnessy both help run non-profits focused on affordable housing preservation, development and management, though they do so from opposite sides of the country and in very different settings: Seana runs Community Housing Improvement Program (CHIP), which develops and manages affordable housing in seven primarily rural communities in Northern California. Brendan is Real Estate Director at University Neighborhood Housing Program (UNHP) in the Bronx, New York City, where he rehabs and manages existing affordable housing buildings.

Despite their different settings and roles in affordable housing provision, they both agree: increasing insurance costs are an existential threat facing the affordable housing community. From flooding in New York City to wildfires in rural California, climate change and insurance costs are increasingly making affordable housing more and more difficult to build and maintain. High insurance bills also mean fewer funds to incorporate the green building practices that are desperately needed in these disaster-prone communities.

I spoke with them about these challenges in a recent interview. The conversation has been edited for length and clarity.

Moira Birss: Describe your work and the people served by your organizations.

Brendan Mitchell: UNHP started about 40 years ago as a loan program, back when a small loan would be enough to buy a small building or complete a major rehab in NYC. In collaboration with tenant organizing groups we would work with the city t

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low-income residents of Northwest Bronx. In our buildings pretty much all residents are below 60% of area median income (AMI). But we've also collected data on the true household income of the people in the community that serve and, for the most part, that number is about $28,000 to $29,000 a year. This shows that housing considered 'affordable' in New York City is often too expensive for people in the community.

Seana O'Shaughnessy: CHIP is primarily an affordable housing developer and manager, though we also have a home ownership program which uses a self help model to support families to build homes, typically at the scale of the subdivision. Since the wildfires in 2018, we've also been doing a lot with disaster recovery; we had a tax credit project [in Paradise, CA] that was burned in the Camp Fire, which we have successfully rebuilt and repopulated.

The AMI situation Brendan described is completely the opposite in rural communities in California: AMIs here are very low. So you may have a couple on Social Security who together are over 30% area median income, yet by no stretch of the imagination do they not still require affordable housing. Yet the AMI ranges that many affordable rental housing serves, including ours, ranges from 30% to 80%, with the vast majority between 30 and 50%. And so you see that the system we all use and we all track and it doesn't really work very well in either urban or rural communities.

Moira: How is climate change affecting how you think about building new affordable housing or managing existing housing?

Seana: We're on the front lines of climate change with wildfire risk in our communities. I think it's challenging because the conversation sometimes is simplified, like 'of course you wouldn't build [or rebuild] in high risk areas'. But the intersection between affordability and location in climate impacts makes it incredibly complicated. There really has to be a conversation about equity: you have communities like Malibu and Tahoe and other areas that cater to the extremely wealthy, and [yet] most of the chatter that you hear about 'we shouldn't be building there or why are people living there?' doesn't happen about those communities; it happens about smaller, more remote, poorer communities where folks that live there are retirees or they just have low- wage jobs or they've lived there for generations with their families and there really aren't great, comparable places for them to go. And I think there are similar issues in areas that are hurricane and flood zones as well.

I also think that, at least for wildfire risk, there are investments in mitigation that, while obviously not foolproof, can go a long way to mitigate and lessen that risk. In fact, the path of fires since the [2018] Camp Fire have proven that: the [2021] Dixie Fire – which was, before this year's fires in Texas, one of the largest fires in the country – started in the exact same places that Camp Fire started, but it turned away when it hit both the former burn scars as well as areas that had been cleared with mitigation measures.

Brendan: We're finding now that the once-in-10-year storm happens every year. New York City is ill-equipped to handle the storms that we're now getting 2 or 3 times a year. Our focus is on preserving and maintaining existing buildings, and so we're talking about buildings that are 100-120 years old. They never used to flood, but now they're flooding. And so we're having to think about drainage in a different way and basement apartments in a different way. If it's just once in 10 years that we have to shop vac a basement apartment, we can handle that. But if it's happening 3 times a year, then you have to move people, literally, to higher ground.

Moira: What role does insurance play in affordable housing development and management? How has it been changing in recent years?

Brendan: What used to happen with our [tax-credit or subsidized] affordable housing buildings is that, as these projects reach their 15 years after tax credits or 30 years since their regulatory agreement, they're refinanced. Up until about 2017, when we went to refinance, we would budget about $500 or $600 per door to set aside for insurance.

And then somewhere around 2017 or 2018, we started getting 15-20% increases in our insurance bills every single year. And slowly, insurance surpassed water and then it surpassed maintenance and taxes and all these other things in the budget to become the number one expense for every single project.

Today we're anywhere from $2,000 to $4,000 per door. And there's really no way to underwrite a project with such a volatile market unless we, say, decided to set aside $10,000 per door — but the truth is we could never maintain debt service, or keep the

And so, as we work on new development deals, everybody is essentially underwriting these things with a nod and a wink as they write down a number, but nobody knows whether it's gonna hold up in the future, and whether the project is going to be able to support it. We don't feel comfortable taking on a mortgage as the sponsor or financing capital needs if we can't generally forecast what the expenses are going to be for a project. And so with insurance being as expensive as it is, we're much more cautious about getting involved in anything new.

Seana: The consistently escalating cost of insurance is an area of extreme risk for all affordable housing developers. Along with the increased costs we're also dealing with fewer providers in the market. And then there's the increased pressure from lenders and investors for us to have the highest possible levels of insurance, which aren't always available.

And while the conversation in the market is around climate risk and catastrophic losses, when you really dig down into the conversation about why there are nonrenewals or increases, the insurance companies are also looking at the kind of populations [we serve] and are looking for ways out. And then some of our public investors are actually not willing to change their agreements around deductibles, so some of our regulatory agreements require us to have a $5,000 or $10,000 deductible, which just doesn't exist anymore.

Insurance has become an existential problem for us.

Brendan: We're seeing a similar dynamic to the one Seana raised: we're seeing [insurance] brokers use crime scores for neighborhoods when considering policy renewals. We're also having them ask what the composition of a project is, that is, whether it includes Section 8 tenants or whether it includes formerly homeless tenants. As a landlord, you're not legally allowed to ask those kinds of things of residents. But the insurance company can ask. We've done a good deal of work around that and, at least in New York State, there's a bill included in the governor's budget to outlaw insurance companies being allowed to ask about who the residents are in a building. We were very excited about that, and then we realized that there's only a couple more insurers left in New York City — what if that's the thing that has them walk away and then we truly don't have any more options?

Moira: What are you doing to deal with these rising prices? What options do you have?

Brendan: To try to deal with these shrinking options, we're working with various working groups around insurance — I think six at last count. Some of those are exploring captives, or reciprocals, or other alternatives to typical insurance, though there's nothing set up yet that we would feel comfortable getting involved in. But it's obvious we need to think outside the box, because we can't continue in this same way.

For the majority of our portfolio the average rent is about a thousand dollars a month. So at insurance renewal time, we're spending 2 to 3 months rent roll just for property insurance. To make affordable housing work in New York City for a long time it was possible just with the property tax cuts from the city, no sales tax, and a low interest loan. It's not enough anymore, and we can see how that's affecting the industry at large.

And this also means that it is less and less possible for us to do green measures for our buildings. We did manage to get solar on some of our buildings with some recently-available subsidies from the state and city and the Inflation Reduction Act. We've tried to encourage our peers to do the same, but most of them say they can't even entertain the idea of implementing solar in their projects or any green measures for that matter because they're waiting on that next insurance renewal, and they don't know what it's gonna look like.

Seana: The thing with captives and pools, though, is they're still dependent upon reinsurance. And the reinsurers are just as adverse right now to the risk in the market. And so I do think there needs to be a radical reimagining.

Moira: HUD just updated its policies for wind and named storm insurance coverage required for multifamily properties financed with an FHA-insured mortgage; in announcing it, HUD said doing so is part of the agency's broader work to address rising insurance costs. Given the challenges you're facing, will this help?

Seana: I think it is movement in the right direction. However, the policy change is limited to wind and named storms (typically hurricanes) and won't be super helpful in the west for fires and floods. But at least the conversation is happening and ther

Brendan: I agree with what Seana said: it's a step in the right direction but won't have a huge impact in NYC.

Moira: Both of you have mentioned "outside the box" thinking and "radical reimagining." What kind of ideas do you have?

Seana: We're all connected, right? Insurance companies are part of our society. But right now the nonprofit owner-developer is stuck between all these really large and powerful forces that have their competing self interests. And we're just trying to serve our community, but we're not getting help or support from the insurance companies. They're just like, 'you have to do this or we're gonna pull out, or you're just gonna have to find the money to pay for it.' Or the bankers and the lenders, or the investors, whether they're public or private, they're like, 'well you have to protect us, you have to find the money for it.'

And we're just trying to serve our communities and provide really quality housing for people that otherwise couldn't afford it. And if we're not here providing that housing, then it just becomes worse. And so… It's just self interest. Help us serve the community or the world's going to be worse! I know this is a capitalist society, but I think insurance companies need to be willing to take slightly smaller profits. They can still be making profits, just slightly less, and I think that needs to be okay.

I also think we need more flexibility from lenders and a willingness to share in some of the risk — they need to recognize reality and not put so many impossible requirements on us.

And then I think policymakers need to catch up. They've been talking about this and hearing about it and yet there's no action. I think there are things at both the state and the federal level that could be done to address the reinsurance. After all, they did that with TRIA, the Terrorism Risk Insurance Act, to address reinsurance, where the federal government said 'we will backstop you after losses of a certain degree.'

We need to see more courage. Some say, 'oh, these things are just happening in states like California and New York.' But it really is happening across the country, in red and blue states. We need people to set aside politics and solve this because while it is about the folks who are most vulnerable, it's really also about everyone. Because eventually we will all be impacted by this. And with things as they currently are, I don't know how we're going to survive as it continues