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Soaring Insurance Costs Could 'End' Affordable Housing, Developers Warn

Developers and landlords of subsidized housing, who cannot raise rents or charge more for starter homes, say property insurance increases could put them out of business.

By Emily Flitter

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For the poorest Americans, finding an apartment to rent or a home to buy often means tapping into a vast network of nonprofit groups that use public and charitable funds to rehab or build affordable housing. Over the past year, the skyrocketing cost of property insurance has put that network on shaky ground.

In Houston, hundreds of apartments once protected from rising rents are being sold off to landlords who can charge the full market rate. In Selma, Ala., insurance premiums are keeping even heavily subsidized homes out of buyers' reach. In Kingsville, Texas, a planned affordable housing development was scrapped entirely.

Costs are rising for homeowners of all types, and in states like Florida, Texas and California, it has become harder to get insurance at all. The industry says bigger, more frequent storms, along with increased home prices and material and labor costs, are forcing them to raise premiums or stop writing policies.

Wealthier homeowners can go without insurance, if they can buy a home without a mortgage. Landlords of market-rate apartments can raise the rent to adjust to the higher costs. But for the 4,000 or so nonprofits and developers that aren't allowed to raise rents, or are selling homes only to buyers with the most constrained budgets, the soaring cost of insurance is an existential threat.

The problem is most serious in coastal states, hit hard by severe weather. But Frank Woodruff, the executive director of the Community Opportunity Alliance, a trade group representing nonprofit housing developers, warned of a wider crisis.

"If it spreads further, it could threaten to end affordable housing development as we know it," he said.

Las Brisas Apartments in Houston is one of several buildings that Avenue, a small nonprofit that develops affordable housing, had to sell to when costs to insure them grew too expensive. Todd Spoth for The New York Times

A collapse of the affordable housing sector could increase homelessness, of course. But it could also hurt the banks that have collectively invested billions in housing projects through a federal tax credit program that has served as the backbone for low-income housing development for decades.

Developers and landlords are trying to draw attention to the problem and come up with solutions that can be adopted quickly. There are no easy ones.

“This problem is so big, and it could kill so very many wonderfully productive organizations, and yet it feels like there’s nothing we can do,” Mr. Woodruff said.

Insurance costs forced Mary Lawler, the chief executive of Avenue, a small nonprofit in Houston that develops affordable housing, to make the difficult decision to sell units that had been earmarked for poor residents. Over years, with help from government funds and charitable donations, Avenue had built a collection of 14 apartment buildings with just over 1,000 low-rent units.

Ms. Lawler recently put five of the buildings — amounting to 400 rental units — up for sale. Only two of them carry deed restrictions that would force their new landlord to keep rents low. The others may be converted into market-rate rentals, which the tenants most likely could not afford.

“The apartments are losing money across our portfolio,” she said. Ms. Lawler said inflation and rising interest rates in recent years had begun to pressure her $14 million budget, but a spike in insurance costs starting in 2023 meant Avenue was suddenly paying far more to maintain the buildings than it was collecting in rent.

“Insurance is really the thing that has had the greatest impact on us,” she said. That’s the case across the affordable housing industry, according to Novogradac, which provides services for developers.

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Todd Spoth for The New York Times

Insurers say the growing frequency and severity of hurricanes, wildfires, floods and big windstorms have made it impossible for them not to raise premiums. In recent years, their property insurance businesses have booked losses instead of profits.

“It’s frustrating, but it’s what our economic conditions are right now,” said Sean Kevelighan, chief executive of the Insurance Information Institute, a trade group. “The private insurance industry is just trying to make sure that it’s getting the right capital on hand so that it can pay the claims and keep the promises.”

One solution, from the Department of Housing and Urban Development, is to make extra funds available for the local housing authorities to distribute to nonprofits.

“This is a work in progress as we move forward in the weeks and months to come,” the acting HUD secretary, Adrianne Todman, said in an interview. “There has just become a chorus of folks saying: ‘We need help. We need to explore this.’ And that’s what we’re trying to do.”

Affordable housing developers want local, state and federal officials to help, too. They are asking for construction codes that would force builders of subsidized housing to use better techniques and stronger materials, thus reducing the total risk insurers would have to take on. Some are proposing a new federal reinsurance fund for property insurers, an idea that trade groups say would not work.

From insurers, members of the affordable housing industry want guarantees that using stronger building techniques will actually result in lower insurance costs, and they want more information about why premiums have soared.

Land to be built on by NACA, which launched a project in Selma. These homes typically cost around $1,800 to insure annually — significantly higher than the typical $900 to $1,200 range. Wes Frazer for The New York Times

This is a terrible time to be shedding affordable housing units, experts say. The U.S. housing market needs up to six million more of them, “so the more affordable housing units we lose to the market-rate sector, that just exacerbates the current affordable housing crisis that we’re facing,” said Lisa Rice, the president of the National Fair Housing Alliance.

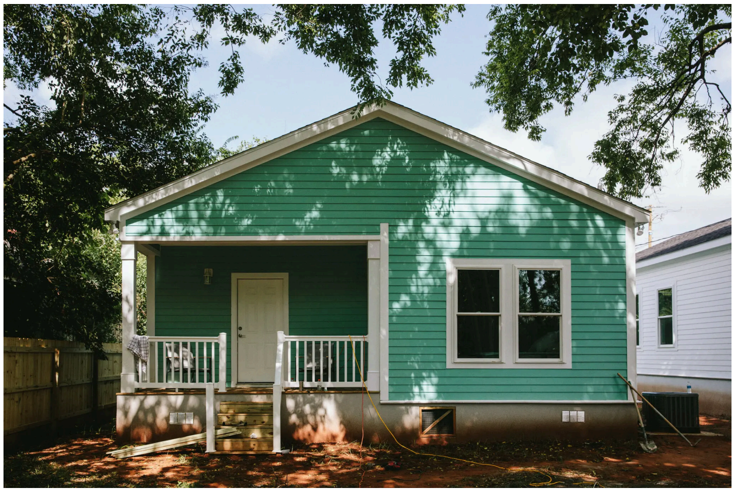
And the lost units aren’t likely to be replaced quickly. The crushing math of insurance costs is starting to imperil new projects that rely on federal tax breaks for funding. Last month, Nick Mitchell-Bennett, the executive director of the Texas-based nonprofit Come Dream Come Build, withdrew a proposal to construct 57 small rental houses for low-income families in Kingsville, Texas, near Corpus Christi, after realizing insurance premiums for the project were unaffordable.

Mr. Mitchell-Bennett had planned to use the federal Low-Income Housing Tax Credit program, which gives lenders tax credits for years for investing in affordable housing developments. States distribute the tax credits through a regional bidding process, and the Kingsville houses were the only proposal in a region that covers more than a third of Texas’ Gulf of Mexico coastline.

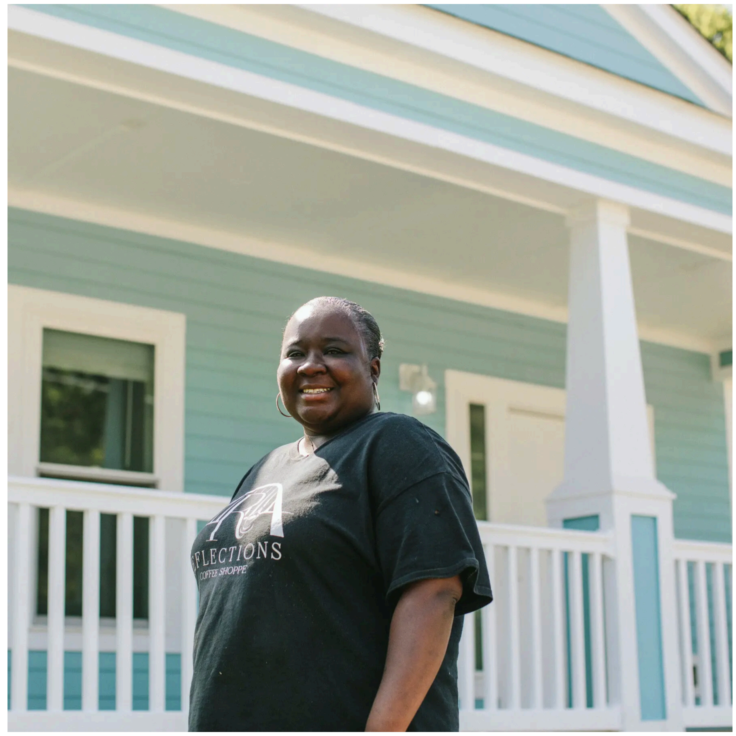
Mr. Mitchell-Bennett said no one seemed able to come up with a solution for finding the missing funds.

“The groups that give grant money to us to offset these higher costs, they’re like, ‘We can’t afford to give you money just to pay for insurance,’” he said.

Mr. Mitchell-Bennett and Mr. Woodruff of the Community Opportunity Alliance say banks that have funded projects in the past using the federal tax credit program should be concerned about what was happening to the projects because of insurance costs. If existing projects have to be sold early or at a loss, the banks could lose money.



The Neighborhood Assistance Corporation of America project in Selma, built on city lots that cost $1 each. Wes Frazer for The New York Times



Tamicka Newberry in front of her new NACA house in Selma. She pays $1,800 a year for insurance, a rate that put the homes out of some buyers' reach. Wes Frazer for The New York Times

Developers of subsidized single-family homes are facing similar problems. Bruce Marks, the chief executive of the Neighborhood Assistance Corporation of America, was proud of his organization's new project in Selma. Using lots sold by the city for $1 each, the developer began installing factory-made houses built to withstand major windstorms, with metal straps securing roofs to the foundations.

At $169,000, the houses were meant to be purchased by residents too poor to qualify for a traditional mortgage, through a special program that would give them access to loans from Bank of America in exchange for counseling and extra payment support from Mr. Marks's organization.

Mr. Marks was dismayed to learn this month that even though the new houses are supposed to be stronger than conventional ones built with wood, it would cost about $1,800 a piece annually to insure them, far above the $900 to $1,200 range that was typically charged before prices spiked. The additional cost meant that fewer people would qualify for mortgages through his organization.

"I thought that the Selma houses would have an easier time getting insurance, but that's wrong," he said.

The NACA houses are factory-made and built to withstand major windstorms, with metal straps securing roofs to the foundations.
Wes Frazer for The New York Times

Insurance companies are regulated by states and follow a patchwork of rules across the country. In some places, they must provide discounts to property owners who have taken steps to strengthen their buildings. In others, they face no such requirements. Affordable housing developers want regulators to require such discounts in all states. The developers also say it is unfair that some states allow insurers to charge higher rates on buildings where low-income families live.

Insurers say asking about rental assistance is simply another way of tracking risk. As for strengthening buildings, they are all for it as a means to ensure "a more resilient property market," said Erin Collins, a senior vice president for the National Association of Mutual Insurance Companies, a trade group that represents many big property insurers.

But Ms. Collins warned regulators against trying to interfere in insurance markets. New rules that would cut premiums or expand subsidies run "the dual danger of constricting competition and potentially worsening properties' underlying challenges," she said.

Emily Flitter writes about finance and how it impacts society. More about Emily Flitter

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