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Think homelessness and housing costs are bad now? California's insurance crisis could make them even worse

By Jacqueline Waggoner

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There is reason for optimism about the cost of housing in California. Executive orders by the governor have freed up funding to preserve and protect housing, municipalities are changing zoning rules to make it easier to create multifamily buildings, and the state is exploring longer-term ways to make more resources available for affordable homes.

But the skyrocketing cost of insurance is threatening to cancel all of that progress.

As major insurers pull out of California because of the risks of climate change, costs are rising, creating a burden for homeowners. But the increase for multifamily affordable housing developers is exponentially higher, impacting not only property insurance, but also liability insurance and builders risk insurance.

This is an alarming trend we have seen simmering during the past few years as a national nonprofit lender, asset manager and owner-operator. In one sample of affordable housing developments in our California investment portfolio, insurance costs increased by 56% from 2020 to 2022. But from 2022 to 2024, housing providers are reporting increases from 50% up to 500%.

Here's what that means in real numbers: In San Francisco, insurance costs for a housing complex for youth exiting foster care rose in 2023 from just under $80,000 to nearly $230,000, a 188% increase. An affordable housing community serving more than 150 seniors in Santa Clara County that paid $50,000 for insurance in 2020; in 2023 rates increased more than 300% to well over $200,000. In Monterey County, an affordable housing provider sought renewal quotes for a property that cost $40,000 to insure in 2022 and was shocked to receive quotes for over $700,000 — more than 1,500% higher. It felt lucky to secure a 2023 policy for just over $257,000, an increase of more than 500%.

The stories are the same across the state. In Los Angeles, insurance costs at one building where housing and services are provided to more than 100 formerly homeless households increased from $94,000 to more than $519,000 — nearly 450% — despite zero claims to date. These eye-popping numbers are quickly becoming the new normal, and they are entirely unsustainable.

Affordable housing developers are often small and medium-sized businesses operating on extremely thin margins. They cannot pass increased operating costs to tenants by increasing rents. They will attempt financial gymnastics to stay afloat, but their financial solvency, the homes they provide and their residents are at risk. As the availability of insurance plummets, premium and deductible costs soar, and the scope and quality of coverage declines, affordable housing development in California will slow to a crawl without immediate intervention.

In September, Gov. Gavin Newsom issued an executive order to address the insurance crisis, and Insurance Commissioner Ricardo Lara announced a new strategy to stabilize costs and require insurers to write policies in areas of the state with higher fire risk. These are steps in the right direction, but we need to go further, faster. Affordable housing in California cannot wait years for long-term proposals to take effect; we need emergency relief now to prevent developers from going out of business and causing a domino effect on the affordability and homelessness crises.

Costs need to decrease, not just level off — and, at least in the short term, the providers of financial subsidies that make affordable housing possible need to consider the new insurance reality. In the short term, this means greater flexibility for new housing developments seeking state and local funds as well as grants or other forgivable loans to cover increased premiums and deductibles for existing affordable homes. Right now, as the state hosts hearings throughout the fall and winter on the issue and as Newsom prepares his preliminary budget for 2024, we need the resources to ensure developments stay open and the construction pipeline continues to grow.

The challenges in the insurance market are years in the making and addressing them will take comprehensive action by the state: legislative measures, further steps by Lara and new initiatives from our state housing finance agencies. For example, there should be a greater requirement for transparency from insurers about why rates are increasing and the forecast models they use to make changes, specifically for affordable housing. This information will be critical as developers plan budgets for existing and new properties over the next year, and it will inform future policy solutions to these challenges.

The Legislature and the governor's administration must consider how to use state resources to protect affordable housing developers from financial distress and residents from the risk of losing their homes, including creating insurance programs designed for the specific needs of affordable housing. The Legislature should also ensure these mission-driven organizations are not forced to pay for policies at rates out of sync with their risk and claim history, especially if the organizations are putting risk mitigation and best practices for building management and climate resilience in place. State housing finance agencies will need to plan for the changes necessary to program guidelines to reflect the new insurance reality.

All solutions to the insurance crisis need to prioritize increased access, lower costs and more equity in how resources and prioritized, and how regulations protect vulnerable Californians.

California's housing, homelessness and insurance crises are deeply intertwined. Failing to address them holistically will have catastrophic impacts. The Legislature and Newsom administration have taken bold steps to prioritize affordability over the past several years, especially during the pandemic when homelessness and the rising cost of housing became unavoidable public emergencies. We need immediate action on insurance from state leaders or we risk seriously undermining this progress.