Why Insurance Rates for New York Property Owners Are Soaring

Insurance News Net

Logan Browne thought he already experienced sticker shock from his Bushwick condo building's insurance rate tripling last year.

Then, this summer, the insurance company dropped the building, citing a "loss ratio" that Browne, the condo board president, said related to water damage claims in 2020 and 2023 after heavy rainfall flooded the basement.

Browne's management company sought coverage from multiple other insurers. Nearly all declined to offer quotes, while one offered a policy for over $15,000 a year, which is what the building opted for. As a result of insurance costs alone, each apartment's common charges nearly doubled this year.

"We're getting to the point where we're having to make assessments for the building every few months just to keep up the funding," Browne said. "I hope it doesn't come to a point where someone can't afford the assessment."

Browne is not alone in facing costly insurance increases or insurers declining to renew policies. Across the country, owners of houses and apartments have contended with high rates, loss of coverage and limited choices. The trend is being pushed by worsening disasters fueled by climate change, increased rates insurance companies have to pay to insure themselves and rising costs related to inflation. At stake is the health of the housing market and New Yorkers' ability to afford their homes.

Though the situation in New York City is not as severe as in Florida or California, where insurers have been pulling out following severe hurricanes and wildfires, property owners in the boroughs have still been feeling the squeeze.

"All of these outside influences are coming together and forcing insurance carriers to be much more selective on who they're going to insure," said Sean Kent, senior vice president of insurance at FS Insurance Brokers, an affiliate of property management company FirstService Residential. "We have had a handful of buildings who have really struggled to make ends meet because of the premiums that they're being forced to pay just to insure their buildings."

Based on a portfolio of about 600 condos, co-ops and multifamily buildings within New York City, Kent had seen policy increases ranging from 10% to 300% upon renewal, depending on claim history.

Publicly accessible data on the cost and availability of property insurance is fragmented and incomplete. The New York State Department of Financial Services regulates rates, but what individual property owners actually pay varies, and there's no law requiring disclosure.

But the limited available information suggests that New York's already high insurance rates are growing at a faster pace compared to other places around the country. Nationwide, between 2020 and 2023, apartment buildings saw insurance rates rise by 12.5% annually on average, according to Moody's.

For apartment buildings with at least 50 units, average insurance premiums more than doubled in Brooklyn and rose by over 50% in Manhattan and Queens between 2020 and 2023, according to information from Yardi Matrix, a real estate data company.

AI and Drones Are Watching

The New York State Department of Financial Services did not provide comment on the growing property insurance squeeze.

Generally, regulators face a fundamental tension between protecting consumers and keeping profit-seeking insurance companies financially stable — able to compensate those consumers when they make claims.

"The regulators want to protect homeowners from exorbitant costs of insurance, and at the same time, they want a vibrant and thriving private market that's competitive and gives consumers options," said Benjamin Keys, a professor of finance and real estate at the University of Pennsylvania's Wharton School. "With rising costs, there's immense pressure on regulators to tamp down the growth because of the burden it’s placing on homeowners.”

While keeping rates low can help property owners in the short term, over time it can have harmful consequences: Keys said that if a regulator limits insurance rates, it can send a signal that an area is low risk, which may encourage development in vulnerable areas and stymie investments to protect properties susceptible to climate impacts.

Climate change is bringing more frequent and intense storms each year, leading to coastal flooding from storm surge, inland flooding from heavy rain and other types of damage. There were 18 billion-dollar weather events across the country in 2022, compared to 28 in 2023, though the former were more costly, according to Fannie Mae. New Yorkers may be on the hook to subsidize costs insurance companies pay out in other states that have experienced disasters, research suggests.

Inflation also drives expenses for insurance companies — exacerbated by pandemic-induced challenges in the supply chain for construction materials.

“Housing is a lot more expensive than it used to be, so the value of it is higher, and that means it’ll cost more to rebuild,” said Caroline Nagy, senior policy counsel for housing, corporate power and climate justice at Americans for Financial Reform, a nonprofit coalition of groups working for consumer protections and a fairer financial system.

Amy Bach, executive director of United Policyholders, a consumer protection group in California, pointed out that new technology is showing insurers “Technicolor details” on risks to properties, contributing to insurance’s climbing costs.

“Some of those details are not confidence-inspiring from a risk-underwriting standpoint,” Bach said. “Through AI, manned drones and data mining, they now see and know about older homes, deferred maintenance and risk exposures they’ve been insuring but are now second-guessing as a sound investment.”

Factors bringing up insurance costs for consumers are also pushing up rates of reinsurance, which is essentially insurance for insurers themselves.

New York City has special risks that play into high insurance rates, including fire hazards in tall buildings, a growing wave of destructive lithium-ion battery fires and the proximity of neighbors, whose washing machines may overflow into another apartment.

A booming business in personal injury lawsuits filed against property owners also fuels high rates, say industry players. Ellen Melchionni, president of the industry group New York Insurance Association, cited "pervasive litigation and rampant fraud," as well as juries awarding large sums in court cases and lawsuit lending — typically a cash advance to finance legal costs or a settlement.

Moving Out of New York?

Upgrades like installing new wiring or plumbing, hiring a doorman or putting in a security system can help property owners get more favorable rates, according to the Insurance Information Institute, an industry group. But not every homeowner can afford such investments.

In South Ozone Park, Queens, homeowner Christopher Pace used his savings to replace his house's leaky roof, which helped him get a better premium. But the rate still nearly doubled from what he paid two years ago.

"That was not anticipated by me or my wife," he said, "and due to that we are seriously contemplating moving out of New York."

Consumer advocates, industry leaders and insurance experts have floated ways to tackle the crisis: addressing the causes and impacts of climate change, creating a state-backed entity to fill gaps left in the market and making the process more transparent so consumers have more agency to influence their risk scores. But they emphasize that the insurance problem has no easy fix.

"This is a collective problem. It's an especially challenging one to leave on individual homeowners and property owners," said Wharton's Keys. "Solutions need to be collective as well."

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