

2023
BOSTON

**Managing Rising Multifamily
Operating Costs**

Speakers

- Discussion Leader:
- **Darrell Beavers**, Housing Development Director | Oklahoma Housing Finance Agency
- **Althea Arnold**, Senior Vice President, Policy | Stewards of Affordable Housing for the Future
- **Allen Feliz**, Vice President, U.S. Affordable Housing | MRI Software/TCAM
- **Marian Zucker**, Senior Director, Sector Lead, USPF Housing | S&P Global Ratings

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2023 NCSHA Annual Conference

Managing Rising Multifamily Operating Costs

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USPF Housing Group
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Multifamily Expense Trends 2020-2022



Per unit total
Expenses

+13% ↑
2020 to 2022

Per unit total
Revenues

+11% ↑
2020 to 2022

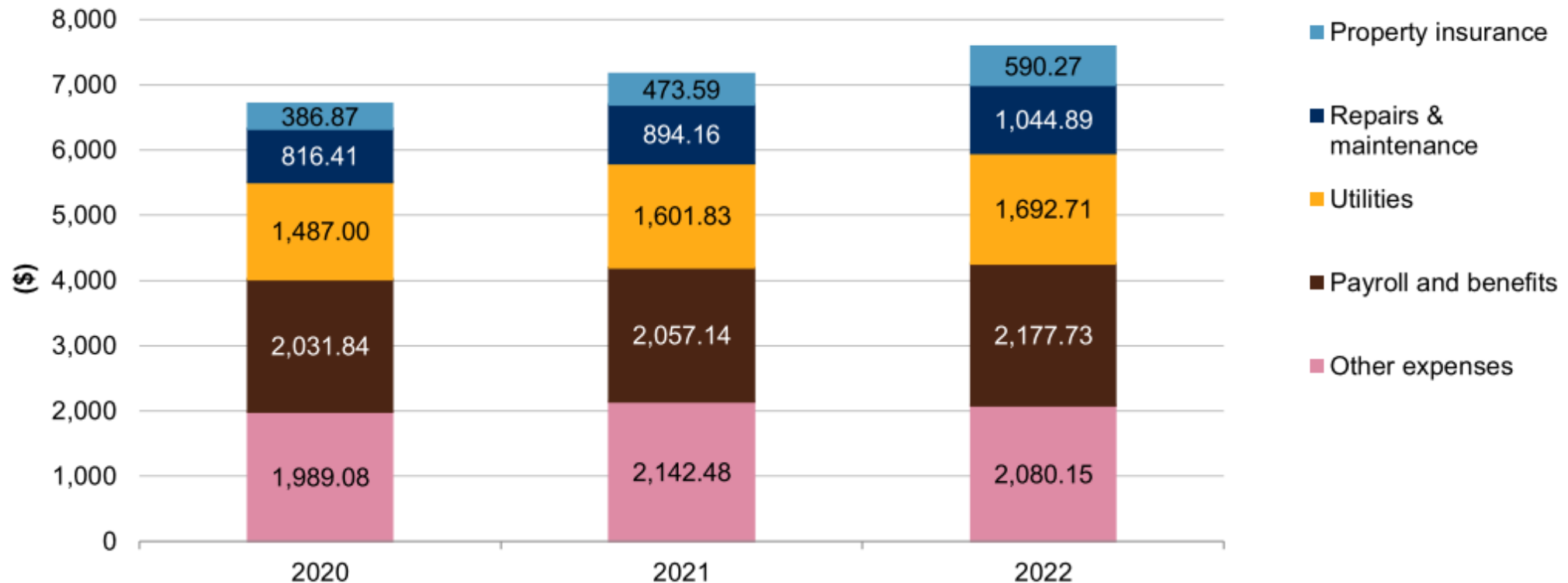
Annual weighted-
average per unit
Insurance expenses

+52% ↑
2020 to 2022

Source: S&P Global Ratings.

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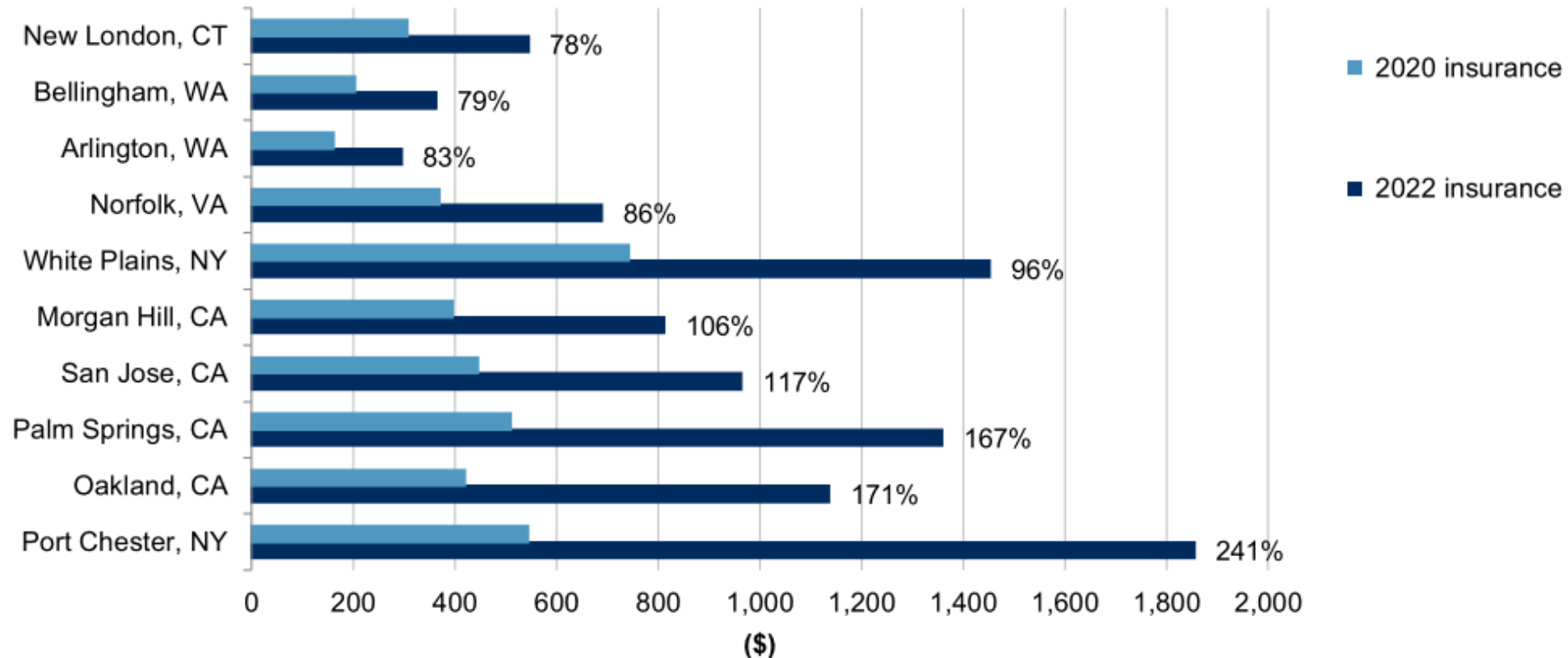
While insurance premiums remain a small portion of operating expenses, they continue to grow in \$ amount and %



Source: Loan servicer data, S&P Global Ratings.

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Spotlight on insurance premium increases – 2020-2022

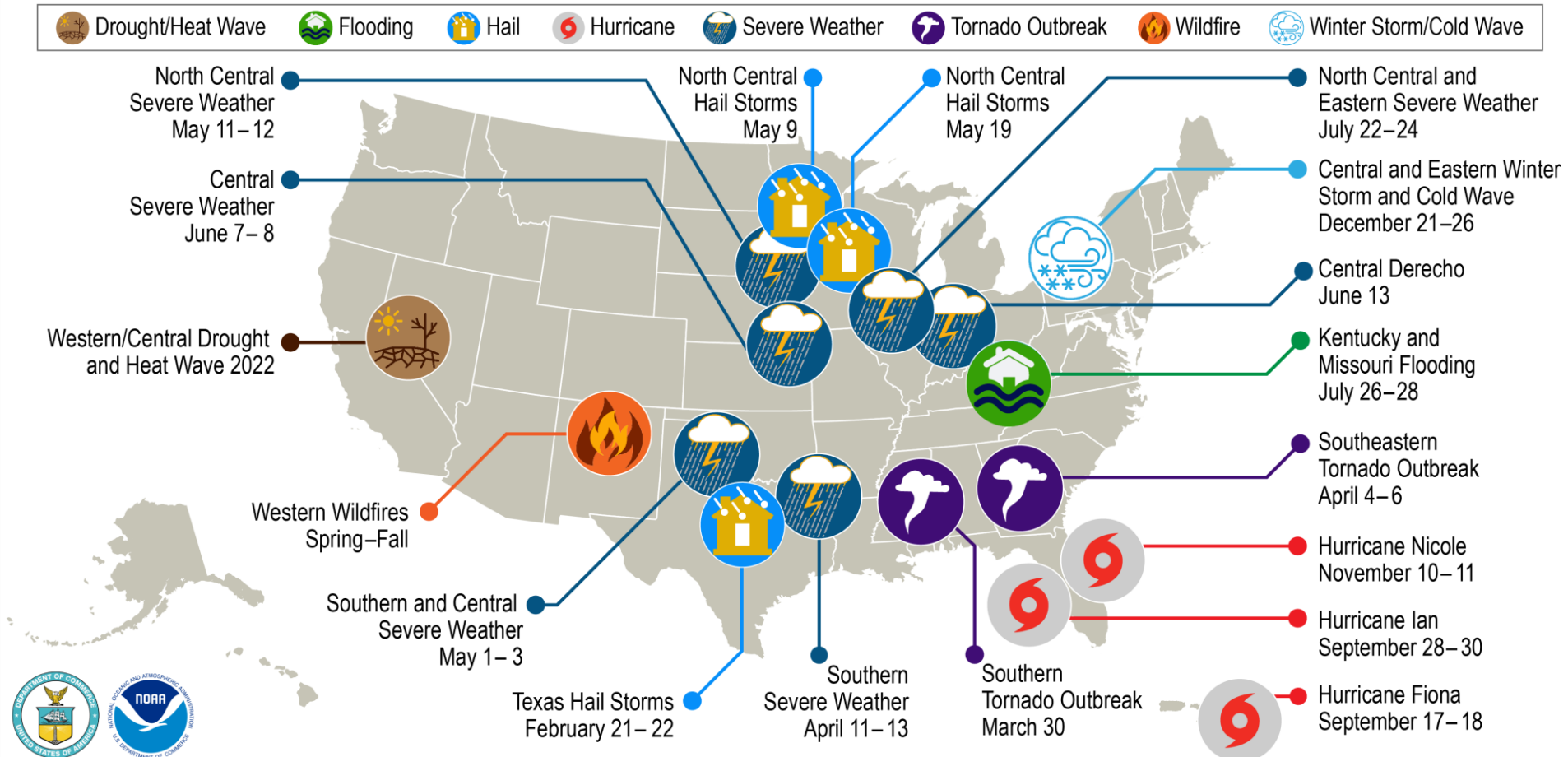


Source: Loan servicer data, S&P Global Ratings.

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2022 billion-dollar events totaled \$165.0 billion (w/o full cost of Dec. storm)

U.S. 2022 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.

S&P Disclosure

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Managing Rising Multifamily Operating Costs

Althea Arnold

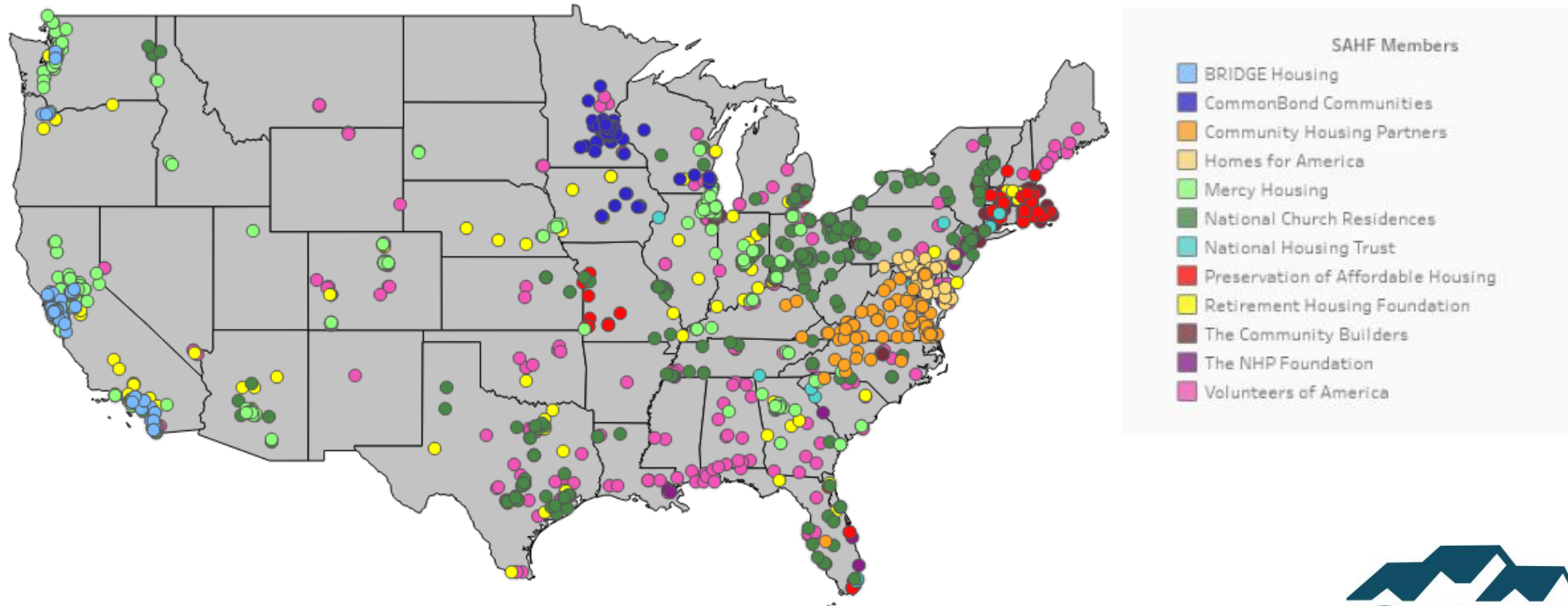
Senior Vice President, Policy

Stewards of Affordable Housing for the
Future



SAHF Member Portfolio

Our twelve members provide over 149,000+ affordable housing units and resident services to over 234,000 seniors and families.



Operating Cost Drivers: Insurance

What we are seeing

➤ **Premium Increases**

- Over past 3 yrs., affordable housing providers saw insurance premium increases from 30 -100%

➤ **Minimum Deductibles**

- Minimum deductibles on property-level policies have increased from \$10,000 to \$25,000 (even up to \$100,000) for SAHF members
- To address how these increases conflict with limits imposed by lenders, investors and regulators, affordable housing providers must take additional policies or create layered coverages or reserve approaches that add additional expenses or risk defaulting on their financing

➤ **Lack of Options**

- Insurance carriers deciding to no longer offer coverage or exit the market/jurisdiction
- Remaining carriers have increased premiums and raised deductibles but adopted a 'take it or leave it' approach
- In addition to property insurance, providers are being squeezed on multiple fronts: liability, builders' risk, etc.

Operating Cost Drivers: Insurance



The current toolkit is inadequate.

- According to a recent NLHA survey, the most common actions providers are taking in response to increased premiums are (1) increasing insurance deductibles, (2) decreasing operating expenses, (3) and increasing rent

Limited but important recommendations for short-term relief:

- Agencies need to review existing insurance requirements and provide increased flexibility and additional funding to owners / properties
- HUD should update Operating Cost Adjustment Factor (OCAF) methodology to better account for property level insurance increases
- IRS should issue guidance to allow developers to capitalize a pre-defined amount of insurance premiums in eligible basis, and allow for expenses related to insurance procurement and risk mitigation activities to be capitalized and included in eligible basis

Long-term policy interventions are needed:

- Multifamily housing taskforces are early in coalition work to identify possible long-term solutions, including possible federal intervention
- Federal and state agencies must do more to ensure affordable housing is eligible and can benefit from pre-disaster mitigation funding and support

Operating Cost Driver: Utility/ Energy Costs

What we are seeing:

- SAHF member success with the Big Reach; new work on Carbon Roadmap
- Carbon reduction strategies do not always equate to reduction in costs, especially in the short-term
- Volatile and increasing energy prices

Energy Price Scenario	Current Prices	EIA Forecast	Higher Fossil Fuel Price Escalation
Current Year: 2022	\$123,369,870		
Target Year: 2034		\$393,475,979	\$505,960,032



What we need:

- Policy solutions for split incentive
- Infrastructure for monitoring and mitigation (building-wide WIFI)
- Alignment and flexibility on new federal resources and HFA financing requirements

Operating Cost Driver: Staffing Challenges

What we are seeing:

- Vacancies, high turnover, and trauma among property management staff
- Difficulty recruiting and retaining maintenance staff, esp. with more advanced experience/training
- Impact of compliance issues / tasks on staff and residents

What we need:

- Agencies to reconsider certain compliance Requirements / timing and staff needed
- Flexibility to explore different staffing models
- Competitive wages
- Ability to budget in critical resident services staff



Managing Rising Multifamily Operating Costs

Key Takeaways:

- Rising and unstable operating costs are unsustainable
 - Raising rents is and should be a limited tool in affordable housing
 - Short-sighted decisions on reducing other operating costs may impact properties, portfolios and the residents that need these homes
- Collaborative efforts are needed to address and manage operating costs, and ensure long-term preservation

Thank you!

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Managing Rising Multifamily Operating Costs



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National Council of
State Housing Agencies

Contents

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Economic & Market Headwinds

Mortgage Rates %



Inflation 

Construction Challenges 

Increase in State and Local Taxes 

Stricter Underwriting 

Utility Expenses

The Challenge:

- YOY double-digit increases

Solutions:

- Energy management tools
- Industry standard asset management
- Organizational strategies
- Energy retrofiting



Property Management Staffing



The Challenge:

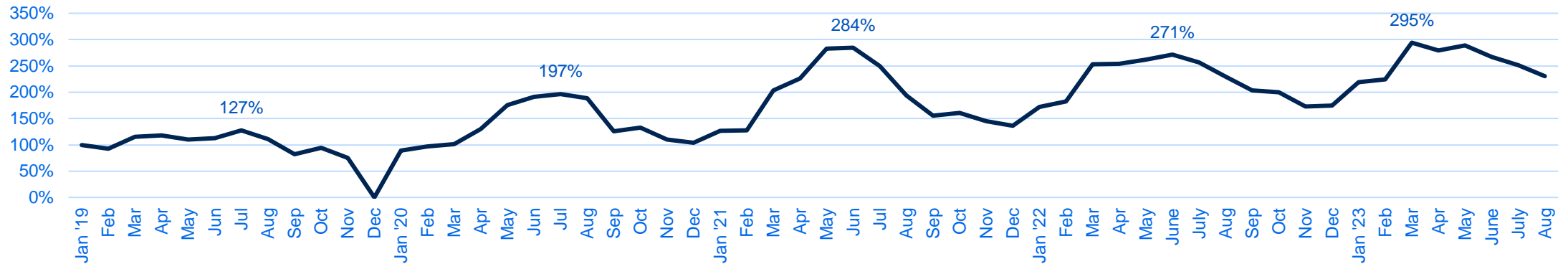
- Stress and burnout
- Attrition

Solutions:

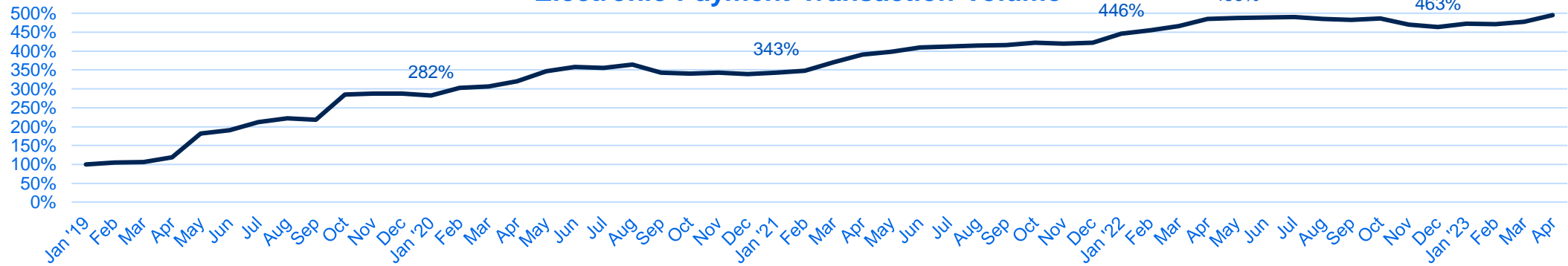
- Comp adjustments
- Non-financial perks
- Creative staffing models
- Better tools
- Greater focus on wellness

Technology Trends

Online Multifamily Application Volume



Electronic Payment Transaction Volume



Technology Trends

ROI of Online Application Systems

5

Minutes to Enter
An Application

x

10k

Applications
Received Online

=

50k

Minutes or 21 weeks
of Data Entry

Assuming \$30,000 salary = \$12,115 in salary just to enter applications
(if they type non-stop for 21 weeks; not including data validation)

What can public stakeholders do?

Streamlining (e.g., HOTMA)

Gap Financing

Inclusionary Zoning

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