



Task Force on Homeowners and Commercial Property Insurance

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Our Unique Role



- Established in 1971
- Seven-member board of directors
 - includes State Auditor
- No direct appropriations for agency operating costs
- Serve statewide through partnerships, across the housing continuum

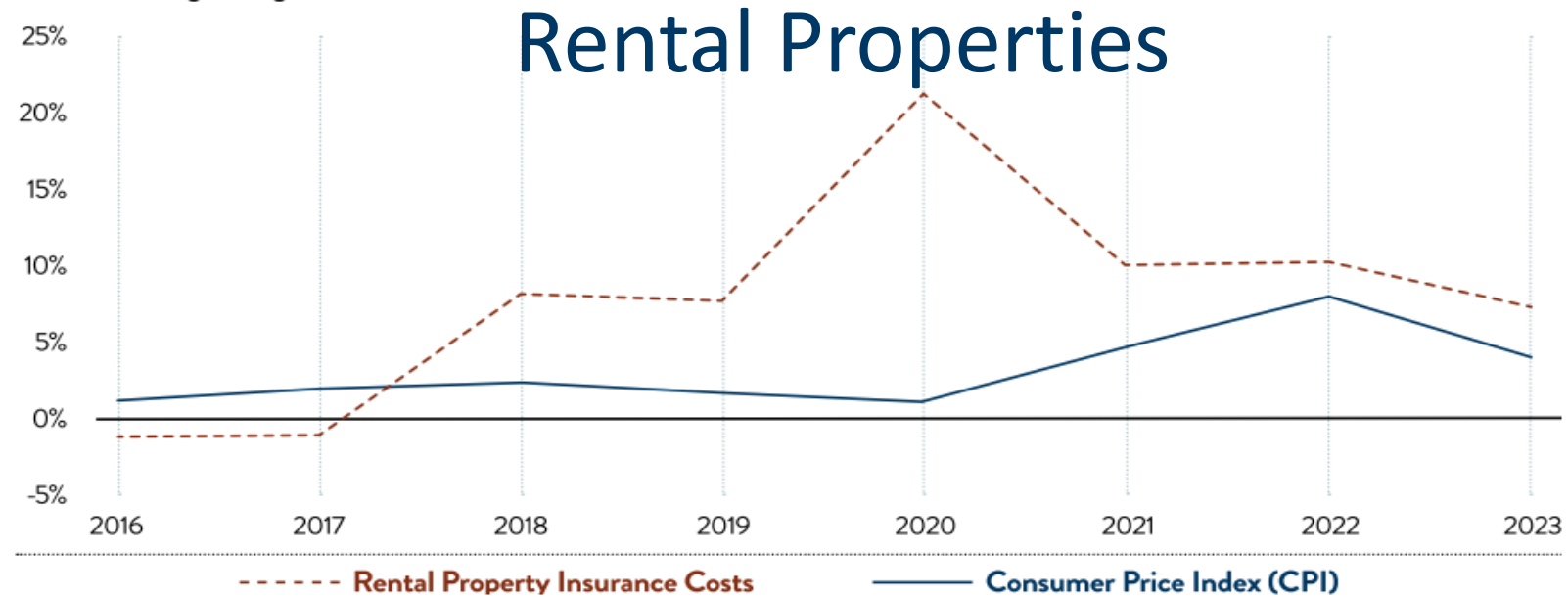
Minnesota Housing Does Not:

- ✗ Build or develop housing
- ✗ Own properties
- ✗ Regulate housing or development
- ✗ Mediate landlord-tenant disputes, or enforce MS 504B
- ✗ Help people find housing
- ✗ Set or enforce local housing, zoning or land-use policies
- ✗ Administer Section 8 Housing Choice Vouchers

Insurance costs for rental properties have been rapidly increasing over the last six years, with a 21% increase in 2020.

This chart shows the annual percentage increase in the median per-unit property insurance costs for the properties in Minnesota Housing's first mortgage portfolio and compares it with the general rate of inflation.

Annual Percentage Change in Costs



Source: Minnesota Housing analysis of rental properties in its first mortgage portfolio.

KEY POINTS

- Increases in insurance costs have outpaced general inflation and peaked at 21% in 2021.
- While the data in this chart only applies to properties in Minnesota Housing's first mortgage portfolio, the increases are broad based. According to the accounting firm Novogradac, insurance costs in properties financed with Low-Income Housing Tax Credits increased by 22.9%, 12.1%, and 25.7% in 2020, 2021 and 2022 respectively across the Midwest region of the U.S.
- Costs associated with severe weather and climate events, including tornadoes and hail events, are cited as a key driver of the insurance cost increases in the Midwest.

IMPLICATIONS

- Rising insurance and other operating costs are creating a challenging environment for rental properties and putting upward pressure on rents.
- Rent restrictions in affordable housing limit the extent to which rents can be raised to cover those costs.

Minnesota Housing Rental Housing Portfolio Trends



Insurance is the leading operating expense increase in recent years

2024 Median Insurance Cost per Unit: Up 37.1% from 2023

2019–2024: Median cost more than doubled

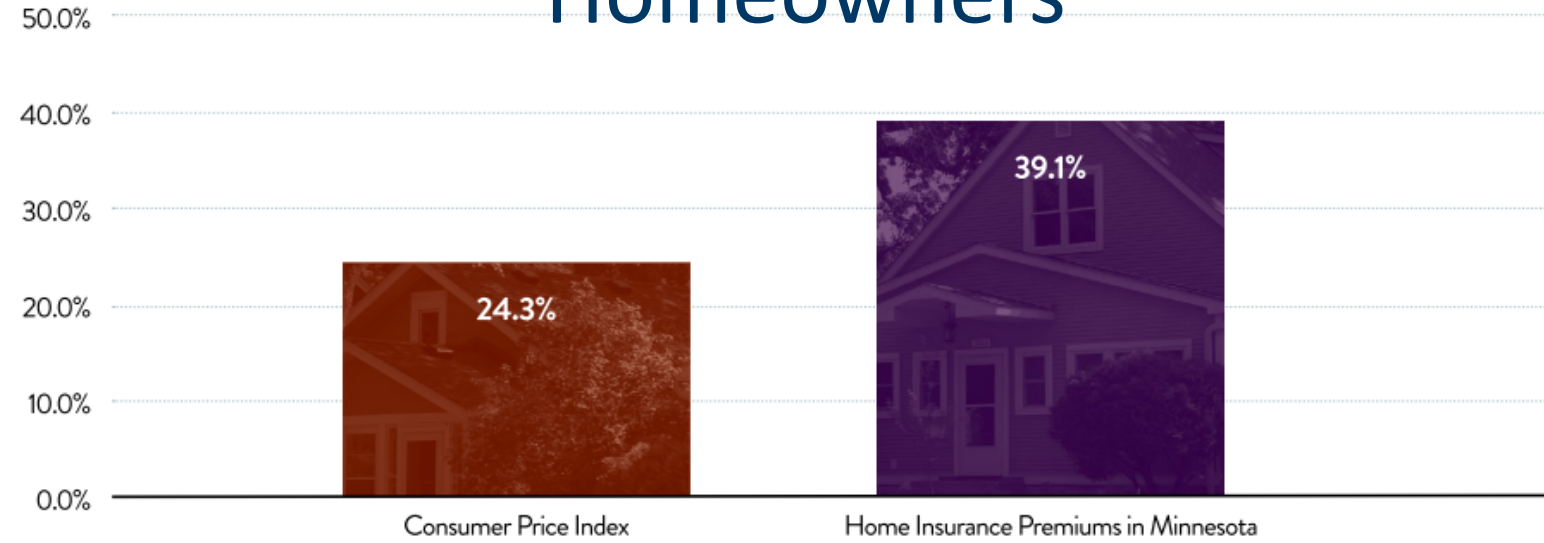


We are seeing, on average, a 50% reduction in property taxes due to the new 4d(1) property tax rate. Lower property taxes are helping to offset the increases in insurance rates

Property insurance costs for homeowners is also rapidly increasing.

This chart compares the percent change in homeowners' insurance premiums in Minnesota with the percentage change in overall consumer prices between 2017 and 2023.

Percent Change (2017 to 2023)



Source: Minnesota Housing analysis of data from the Minneapolis Federal Reserve Bank, *Homeowners Insurance Costs are Growing Fast, but Coverage is Shrinking* (August 28, 2024), and the Bureau of Labor Statistics (CPI-U).

KEY POINTS

- While general consumer prices increased by 24.3% between 2017 and 2023, home insurance premiums increased by a higher 39.1%.
- The insurance industry is also experiencing “shrinkflation,” which is a term used in the food industry to capture smaller packaging and less food. Similarly, homeowners are getting less coverage in their policies while also seeing their premiums increase.

- Just like the rental market, costs associated with severe weather and climate events are the primary driver of these increases.

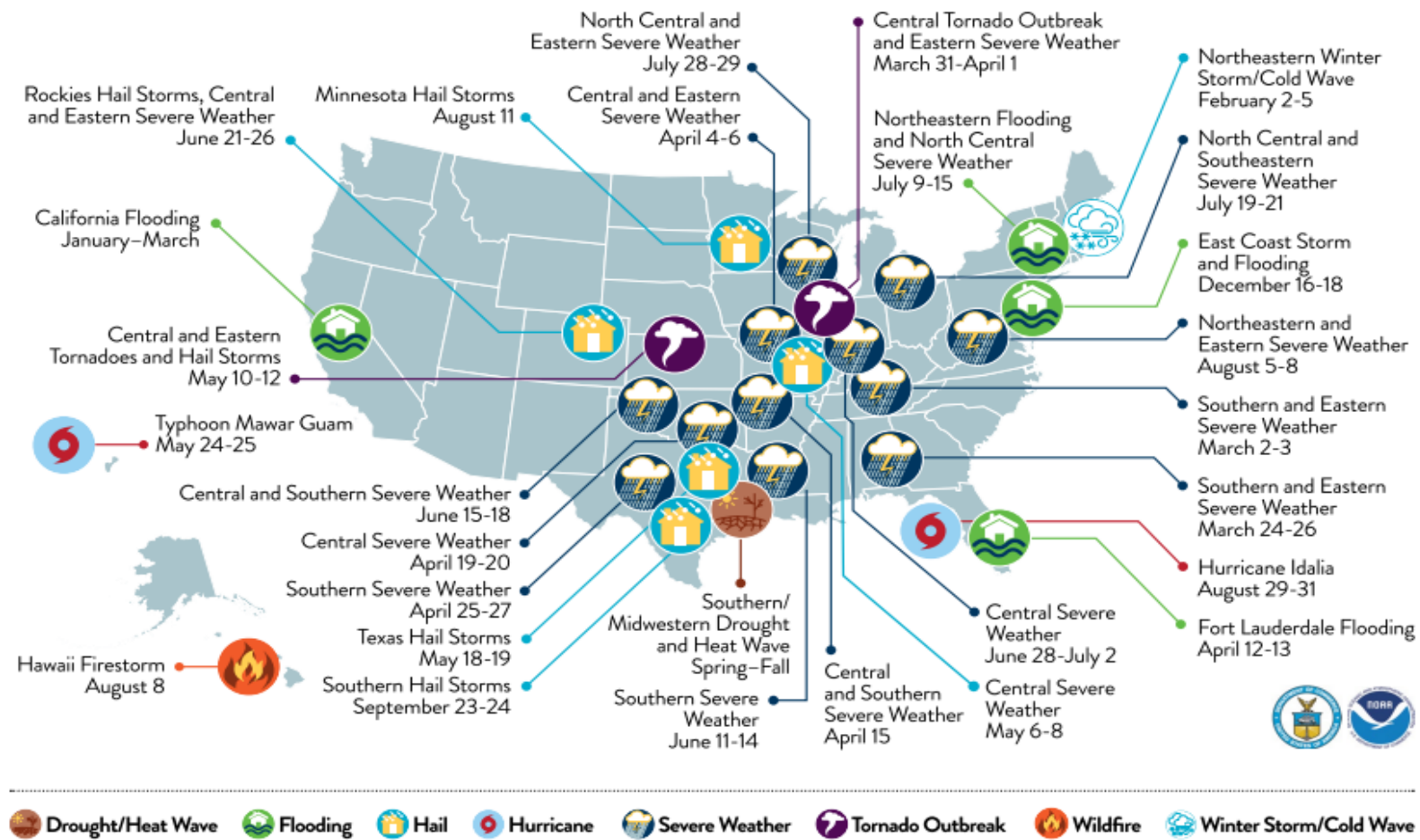
IMPLICATIONS

- The increases are making housing less affordable.
- Households with incomes between \$100,000 and \$128,000 are getting priced out from buying a median-priced home.

The number of large climate and weather disasters associated with climate change is increasing.

This graphic shows the billion-dollar weather and climate disasters in the United States during 2023.

Source: Novogradac paper on insurance costs.



Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-dollar Weather and Climate Disasters (2024).
This map denotes the approximate location for each of the 28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.

KEY POINTS

- In the 2010s, the annual number of climate and weather disasters costing one billion or more dollars averaged 13 events. Since 2019, it has averaged 20 annually, with 28 in 2023.

IMPLICATIONS

- It is these types of events that are driving up insurance costs, as shown on pages 29 and 30.
- As climate change progresses, the number and magnitude of these events will increase.

- Housing needs to be made more resilient to extreme climate and weather events by adopting measures like hail-resistant shingles, fire-resistant building materials and others.

Perspective on why are costs rising

Higher Property Values –

Lenders require full replacement cost coverage which means higher premiums as property values grow.

Natural Disasters – More frequent and severe events drive up premiums.

Rising Repair Costs – Inflation in materials and labor impacts claims.

More Claims – Increased frequency and severity of property losses.

Growing Liability Risks – Both claim frequency and settlement amounts are up.

Permanent Supportive Housing Impact:

- Permanent supportive housing tends to experience higher claim activity.
- These properties often must use the **excess and surplus market**, which is more expensive.

Implications of Increasing Insurance Costs



Rental Housing - Rising insurance costs are putting increasing financial pressures as well as difficult trade-offs on price/coverage for rental property owners.

Homeownership - The increased costs add another financial barrier to first-time homebuyers already facing many barriers to homeownership and make it more difficult to maintain homeownership

Coverage considerations for property owners

- Strength of Risk Management Program
- Risk Tolerance & Cash Flow
- Premium Savings vs. Deductibles
- Identify Properties Driving Claims
- Work with a Qualified Agent/Broker
- Meet Lender Requirements
- Some owners carry large deductibles
 - most are <\$100k
 - some owners are forced to get insurance coverage with deductibles as high as \$100K, \$250K, or even \$500K+ — to lower premiums.

Thank You

Contact Us

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