SPECIAL REPORT

Marcus & Millichap

California Multifamily Property Insurance
Frequently Asked Questions:

JUNE 2025

Q: How are insurance costs changing in California?

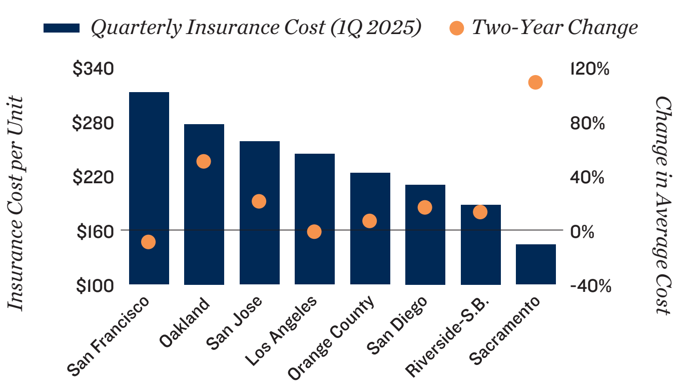
A: In May, California's Insurance Commissioner approved an emergency rate hike request from State Farm in exchange for the provider refraining from expanding policy non-renewals later this year. The hike, taking effect June 1, will allow State Farm to raise premiums on multifamily property owners by up to 38 percent. Homeowners' policies could rise by as much as 15 percent, while the cost of condo and renters' insurance could increase by 17 percent. This approval reiterates multifamily property owners' concerns surrounding the rising cost of multifamily insurance, especially as the state recovers from a series of historically damaging wildfires — including the Palisades and Eaton fires — at the start of 2025.

Q: How will these hikes impact the overall market?

A: As of 2023, State Farm was California's largest property and casualty insurance provider, holding a 9.1 percent market share and nearly $8.8 billion in written premiums.

- The top 10 providers by California market share collectively accounted for 52 percent of all written premiums during that same year. Obtaining a new policy or a renewal from some of these sources, however, may prove increasingly difficult for property owners. State Farm no longer accepts applications for California property insurance. Hartford, Travelers and Nationwide are also among the providers that are not renewing policies.
- The remaining 48 percent of California's property and casualty insurance market is composed of approximately 200 different providers, suggesting options exist for apartment investors.

Cost of Rental Property Insurance Varies



Q: How can property owners mitigate costs?

A: As multifamily insurance premiums continue to change, there are avenues that property owners can explore to reduce their overall insurance costs, including:

- ***Raise their deductible.*** By increasing their deductible, a policy holder may be able to lower their monthly premium, albeit at the risk of raising their out-of-pocket expense in the event of damage. Agreements with lenders may stipulate a certain deductible level.
- ***Upgrade the property to improve resilience.*** Installing a security or fire suppression system, repairing roofs, and performing regular maintenance are all improvements that may lead an insurer to underwrite the property with a lower monthly premium. Costs associated with these various systems, however, vary significantly based on property type. According to several fire suppression suppliers, retrofitting an existing building with a basic fire sprinkler system costs, on average, between $2 to $7 per square foot — with regular inspections required.
- ***Combine policies***. If an investor owns multiple rental properties, they may be able to reduce expenses by reviewing and bundling their policies with a single provider.
- ***Seek a contractual risk transfer.*** By transferring risks from the property owner to third parties with whom they do business with, such as a subcontractor or a grounds maintenance team, a property owner may be able to limit their liability for the work performed by these companies. Legally requiring tenants to have renters insurance as part of the lease agreement will also reduce a property owners' exposure to claims.

Q: What is the cost of multifamily property insurance?

A: The average quarterly insurance cost per unit as of March 2025 across California's eight-largest markets ranged from $144 in Sacramento to $312 in San Francisco. While the latter metro, Oakland, San Jose, Los Angeles and Orange County each rank among the nation's 15 highest-cost major metros, insurance as a percentage of NOI was below the national mean of 3.5 percent in all markets but Oakland.

- The average cost to insure a rental unit rose by double digits in San Diego, Riverside-San Bernardino and Orange County over the past two years ended in March. Apartments owners in Los Angeles, meanwhile, saw their mean quarterly cost dip slightly over the 24-month span to $244 per unit. This dynamic is unlikely to hold, however, in the wake of January's wildfires.

Q: How do insurance costs in major California markets compare to other metros?

A: After a series of destructive hurricanes from 2017 to 2024, multifamily property insurance is highest in Florida and Texas. Here, insurance costs as a percentage of NOI ranged from a low of 3.7 percent in Austin up to 6.7 percent in Jacksonville during the first quarter of 2025.

- Florida is home to the four highest-cost metros: Miami, Fort Lauderdale, West Palm Beach and Tampa. In these markets, the average insurance cost per unit spanned the $328 to $415 tranche during the first quarter.

A: Insurance costs as a percentage of NOI are also higher in parts of the Midwest, including in St. Louis, Kansas City, Cleveland and Indianapolis. Across these metros, coverage equates to 3.9 percent to 5.0 percent of quarterly NOI.

Q: What is the state of apartment demand and construction activity in California?

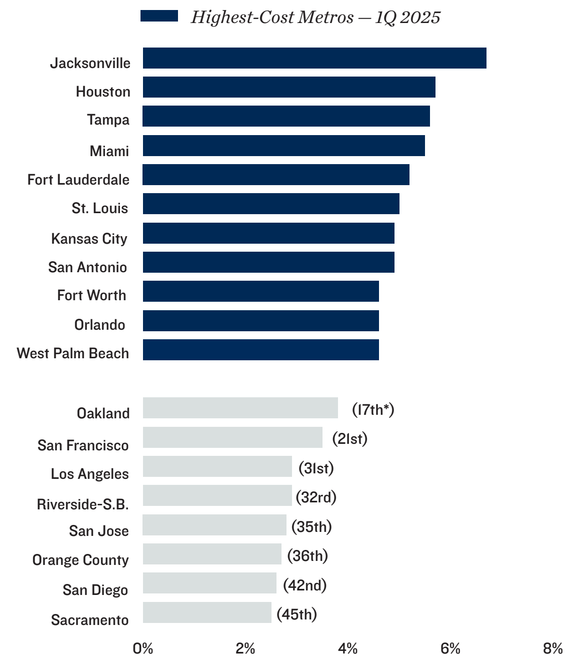
A: The multifamily segment is on solid footing following a recently encouraging stretch of leasing activity. Renters collectively absorbed a net of nearly 49,000 units across California's eight major markets during the 12-month stretch ended in March, with demand improving across all property types. This dynamic allowed the state's collective vacancy rate to decline 60 basis points to 4.4 percent — just 10 basis points above its long-term average.

- All eight of California's major markets noted vacancy compression over the past year, highlighted by declines of 110 and 120 basis points in Riverside-San Bernardino and Sacramento, respectively. Regarded as lower-cost housing alternatives to their coastal counterparts, both these metros boast vacancy rates at least 20 basis points below their long-term averages.

A: For a second straight year, roughly 30,000 units are slated for completion across the state's eight major markets, with nearly 30 percent of near-term deliveries centered in Los Angeles County. Fortunately for developers, Class A vacancy declined across all these metros over the past year — from 10 basis points in Orange County to 200 basis points in San Francisco. This dynamic and statewide barriers to homeownership suggest most new units should be well received over time, especially in markets slated to register a year-over-year decline in completions: Oakland, Riverside-San Bernardino, Sacramento, San Diego and San Francisco.

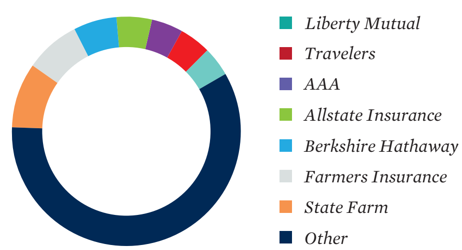
- Beyond 2025, a pullback in apartment deliveries may materialize statewide. The number of multifamily permits pulled across the state's eight major markets collectively declined by 26 percent during the first quarter of 2025 on a year-over-year basis. Four markets recorded more pronounced declines, led by a 55 percent drop in San Jose. Only Orange County notched a noteworthy rise in permitting, with activity up roughly 50 percent.

Impacts of Insurance More Apparent Elsewhere



Insurance as a Percentage of Quarterly NOI

Many Options for Property Insurance Exist



Share of California Property & Casualty Insurance Market (2023)

** Ranking among top 50 major metros*

National Multi-Housing Group

Peter Standley *Vice President, National Director*
National Multi Housing Group
Tel: (317) 218-5300 | peter.standley@marcusmillichap.com

For information on national apartment trends, contact:

John Chang *Senior Vice President, Chief Intelligence & Analytics Officer*
Tel: (602) 707-9700 | john.chang@marcusmillichap.com