


An illustration of a two-story house with a porch, surrounded by several large, light blue balloons with dollar signs on them. The balloons are tied to the house, suggesting a heavy financial burden. The background is dark with faint, repeating text: 'Hurricanes Wildfires Home Insurance Hail Tornadoes Flooding Escalating Material Costs'.

The Soaring Cost of Homeownership

A blue silhouette of a person standing and looking up towards the balloons.

Rising taxes and maintenance expenses are tightening consumers' belts, but the price of insurance is breaking the bank.

Housing prices are up. Inventory is down, though it's improved in recent months. And prospective homebuyers are hustling harder than ever to obtain their piece of the American Dream. Given all the barriers they topple en route to buying, new homeowners might feel entitled to bask in the glow of their new purchase for a while. Unfortunately, the cost of owning a home is squeezing budgets and fraying the nerves of Minnesotans across the state.

Three factors are pushing expenses upward: higher property taxes, increased cost of maintenance and repairs, and homeowners' insurance. Overall, American homeowners shell out an average of \$18,000 on top of already steep mortgage payments, reports Bankrate, a consumer financial services company.

Property taxes driven by inflating home values

Although mortgage rates are finally creeping down, making purchasing a home possible for more buyers, escalating home values are pushing up property taxes. According to Attom Data Solutions, a real-estate analytics provider, homeowners across the U.S. saw their taxes increase an average 4.1% in 2023. That came on the heels of a 3% spike in 2022. In Minnesota, increases are considerably higher, averaging 7.3% in 2024 as reported by the Minnesota Department of Revenue.

Repairs, maintenance, and improvements are pricey

And while the rate of inflation has dropped—to just 3% in June 2024 after peaking at 9.1% two years ago—the products homeowners need are still expensive. Whether doing simple repairs or a DIY kitchen remodel, consumers have been forced to limit and economize their purchases. In its 2023 annual report, the North American Hardware and Paint Association (NHPA) noted that retail transactions were down nearly 4%.

Home insurance premiums hit all-time high

But of all the costs associated with owning a home, insurance leads the inflationary trifecta. In Minnesota, home insurance rates have increased almost 40% since 2018. In Texas, rates are up nearly 60%, with Colorado and Arizona not far behind. Nationally, rates averaged nearly 34% increases over the same period.

What's driving these escalations? Climate change.

A report from Realtor.com estimates almost half of homes in the US are at risk from severe damage due to flooding, wildfires, wind, heat, or toxic air quality. In all, \$22 trillion in residential real estate is potentially in the crosshairs of a catastrophic weather event.

For Minnesota, a warm, wet costly future

In Minnesota, wind, hail damage, and flooding from severe convective storms are the primary threats. These once rare weather events have been increasing in frequency and intensity since 1998.

As trapped heat pumps more moisture from oceans, rivers, and lakes into the atmosphere, torrents of rain soak the landscape. Overall, the state's climate has been warmer and wetter during the last quarter century than at any time since 1895. According to the University of Minnesota Climate Adaptation Partnership, Minnesota's growing season is now two weeks longer than it was in 1950. Although the crops are getting more sunshine, extreme weather events are on the rise.

In a February interview with Minnesota Public Radio, Julia Dreier, deputy commissioner of insurance at the Minnesota Department of Commerce, noted that a 30-minute hailstorm in the Twin Cities metro last August caused a billion dollars in damage. And there is no limit to all the wind, hail, rain, and flooding the skies can

unleash in this rapidly warming region of the country. So, while home insurers in Minnesota are not talking about fleeing the state anytime soon, rates will rise for the foreseeable future.

Insurers lose money but homeowners are the big losers

Repairing all those damaged roofs, siding, and water-sodden structures is costly, and the state's insurers are feeling the heat. In 2022, insurers lost \$190 for every \$1.92 collected from homeowners in premiums, reports the Insurance Federation of Minnesota, a non-profit trade association representing the state's insurance companies. The new climate reality is reflected in soaring insurance premiums. In 1998, the average Minnesotan homeowner's insurance premium was \$368. Today, it is over \$1,600—a 450% increase.

The rising cost of homes fuels surging rates because more expensive houses are more costly to repair. Factor in a construction industry grappling with higher labor costs (and labor shortages), and escalating material costs, and homeowners are caught in an inflationary spiral.

Can it get worse? Weather-related insurance costs in Florida, where hurricanes are increasing in frequency and intensity, are so high that Farmers Insurance recently stopped providing policies, leaving more than 100,000 people without coverage. In western states, wildfires incinerate vast swaths of forest every year, destroying thousands of homes. All told, more than \$3 trillion worth of residential real estate is at risk. Insurers in California, Colorado, Texas, and Arizona are no longer covering highly fire-prone areas, forcing homeowners to purchase state-operated insurance programs that are expensive and inadequate.

For those struggling to save for their first home, the cost of insurance can price them out of the market. In an interview with *Realtor® Magazine*, Thom Amdur, senior vice president of policy and impact at the investment firm Lincoln Avenue Communities, stated: "The rising cost of insurance is an affordable housing issue." He added that rate hikes are hitting developers, too, curtailing construction of more affordable housing units.

Posting profits during crises

Critics charge that home insurers are gouging consumers with exponential rate increases. Despite losses in disaster-prone regions, they are making money. In July, the *Wall Street Journal* reported that insurers posted healthy quarterly profits across the board this year. Much of this came from rate hikes. The Consumer Federation of America, an advocacy group, accused insurers of using "bullying tactics" to force state regulators and lawmakers to allow higher premiums. However, the Journal notes, insurers see profits as a bulwark against the rising costs of doing business in a climate-changing world. For example, AM Best, an insurance credit-rating agency, reports that home insurers underwrote \$16 Billion of losses in 2023. As weather disasters become more frequent and severe, those losses are expected to mount.

For policy holders, this means reduced coverage with higher deductibles, and fewer choices of vendors as insurers flee high-risk regions. An April 2024 survey from Auction.com, a real

estate marketer specializing in foreclosed properties, identified homeowners' insurance—along with increased property taxes—as “the biggest factors contributing to a growing number of mortgage delinquencies.”

Minnesota lawmakers act to reign in unethical contractors

For some unscrupulous home-repair contractors, severe weather is bringing a windfall of work. In a June interview on Minnesota Public Radio, Aaron Cocking, president and CEO of the Insurance Federation of Minnesota, said those storm-chasing, fly-by-night contractors are jacking fees far beyond actual labor and materials costs, and letting homeowners' insurance foot the bill.

At the state Legislature this spring, lawmakers took a tentative step toward easing this problem by passing an act (HF 4077/ SF 4097) that prohibits “providers of restoration and mitigation services...from charging ‘unconscionably excessive prices.’” Under the act's provisions, contractors won't be able to bill “more than 25% above the average price of essential goods or services” for work done on structures in state-declared emergency areas.

While this may ease some costs to insurance companies, it is unclear whether it will trickle down to homeowners in the form of lower premiums.

Building strong homes to withstand severe weather

Experts agree that with even the most aggressive measures to reign in climate change, the planet's weather will remain volatile and unpredictable for the next half century, and perhaps far longer. During an affordable housing symposium last year held by the National Housing Conference (NHC) in Washington, D.C., an expert panel concluded that new housing developments must be designed for weather resiliency, and existing homes should be retrofitted. They suggested working with states, communities, and lending institutions to make renovations affordable for low-to-moderate income families. Additionally, providing greater funding and tax credits to support climate-resiliency projects in communities.

The first line of defense begins with buyers. The NHC proposed creating a national climate-change database that prospective homeowners can use to scope out the meteorological reality of areas in which they are considering living. Would their new home be in a flood plain? How many floods have occurred over the last 20 years? Are there frequent tornadoes, hurricanes, and other damaging winds? Is the area prone to wildfires? This could help buyers determine if a lower-priced home or community is potentially more costly due to weather-related risks. On the other hand, the database could have the unintended effect of driving up the cost of real estate in the desirable “weather oasis” where people flock.

More controversially, the NHC suggests that cities and towns adopt new zoning laws requiring the construction of weather-proofed homes. Although insurers might feel easier about covering houses built to withstand hurricanes and other severe events, advocates for affordable homes are likely to object. In Minnesota and other states, activist groups like Yes in My Backyard (YIMBY) are partnering with legislators to rollback zoning restrictions and other regulations they say make housing prohibitively expensive. (See “Making Minnesota the Land of Affordable Homes” in the May–June issue of *The Minnesota Realtor*®.)

One thing is certain, no matter how heated the debates at the state capitol and in corporate boardrooms, the planet is getting hotter. Winds will blow. Fires will rage. Hail and floods will wreak destruction on property. And insurance rates will continue following the mercury straight up the thermometer until we come to a local, state, and national consensus on how to solve this crisis together.

How to Build Weather Resilient Homes

No structure is indestructible, but these guidelines could make homes in many regions safer, and less vulnerable to severe weather.

Wildfire Areas

- Follow landscape guidelines for decreasing wildfire risk

Wind and Storm Regions

- Use siding made from fiber cement in wind and hail-prone areas. It can withstand blows from objects striking it at up to 75mph
- Use roofing materials made from metal, tile, slate, or class 4 asphalt shingles which can resist winds up to 160mph

Flood Zones

- Remove mechanical systems from ground floor in flood-prone areas
- Install flood barriers