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Rate hikes hit condos

Owners say they feel burned by rising insurance

The Associated Press

The number of vacation short-term rental condominium units in Gulf Shores, Orange Beach and the Fort Morgan Peninsula:

Currently, 13,169 units

Another 1,622 units are set to open by the end of 2009.

Another 14,065 units have been permitted, with site plans approved by the regulatory agencies, but have yet to move ahead with construction for various reasons.

These numbers do not include long-term rentals, including homes and apartments.

Source: Alabama Gulf Coast Convention and Visitors Bureau

MOBILE, Ala. - As Labor Day tourists take an end-of-summer beach trip, owners of thousands of condominiums that line the Alabama Gulf Coast say they're getting burned by soaring insurance premiums.

Insurance legislation aimed at making coverage available and affordable on the coast since rates spiked after Hurricane Katrina couldn't come soon enough for the resort real estate industry.

"It's horrible. Rates have gone through the ceiling," said Fort Morgan builder Greg Miller. Miller said Friday he paid \$22,000 in coverage on four condo units until Katrina struck two years ago. He said he now pays \$108,000 on his units for less coverage. "That's all we could get."

He said the deductible on wind damage has risen from 2 percent to 5 percent.

Rates began rising after Hurricane Ivan struck three years ago as insurers moved to avoid huge disaster losses from future storms.

"We actually have some documented 1,000 percent increases. Most are in the 300 to 400 percent range," said longtime insurance dealer and former Foley Mayor Tim Russell. Russell is among those pressing Gov. Bob Riley to call a special session of the Legislature to deal with the coastal insurance crisis, which Russell blames for a slowdown in construction on any condos planned before Ivan.

Riley has discussed with lawmakers the need for a special session on ethics reforms but has made no decision on calling one. If a session is called, insurance measures might be among the issues addressed, Riley spokesman Jeff Emerson said.

State Sen. Ben Brooks, R-Mobile, said he's preparing some insurance reform legislation. Brooks declined to release details on the unfinished bill, but said it does not require a subsidy from the state.

Brooks, who is an attorney, said he's surveyed reforms in South Carolina, Florida and Louisiana and favors the South Carolina model. The South Carolina Legislature passed a bill in June to help stabilize the cost and availability of coastal insurance. Provisions include allowing homeowners to put money into tax-deductible hurricane savings accounts, which they could use to offset large deductibles or skip buying insurance and self-insure. Insurers can get tax credits for writing full-coverage policies along the coast.

"I think there's a lot of pressure on the governor to have a special session. I think we need it. We've got to get some help," Russell said.

Some of that pressure also comes from the Alabama Association of Realtors. "So far, nothing has happened," said Martha Taylor, director of the Baldwin County Association of Realtors.

Coastal coverage is available, but insurance companies have stripped down coverage with higher deductibles and more exclusions. The lack of hurricanes so far this year has helped bring more insurers into the Alabama coastal market.

Gulf Shores real estate broker Bill Bender said insurance firms are "like everyone else, when they see competitors making money then they want a piece of that and will start tiptoeing back."

Bender said there's a "fair amount of pressure from condominium owners to increase rental rates to help offset the sudden increase in cost of ownership, particularly due to insurance costs and property taxes." But he said the owners understand that they could price themselves out of the rental market if the price gets too high.

The insurance industry opposes having states getting involved in its business, saying competition is the way to go. State Farm, which insures more coastal homes than any other carrier, has been involved in the discussions on making insurance available on the Alabama coast, a spokesman said. Also giving input to the state Insurance Department is the Property Casualty Insurers Association of America, says the association's regional manager, William Stander of Tallahassee, Fla.

"All need to remember the insurance companies are the ones who have and continue to rebuild the coasts after these storms," Stander said in a telephone interview Friday. He said if Alabama pursues any legislation, it should include tougher building codes that bring structures able to withstand storm winds. Reducing potential losses could bring lower rates, he said.

Brooks met recently with Russell, who is pushing for creation of a "captive" insurance fund that would benefit cities and counties that participate in it. Legislation would help the cities and counties create the fund, Russell said.

"No hurricane is the best thing for all of us. That's not going to solve the problem," Russell said, referring to the population growth on the coast. He said state legislation also could include tax incentives for the industry to build a catastrophe reserve.

Speaking recently in Biloxi, Miss., at the Southern Governors Association conference, Riley said no governor wants to get involved, but if the insurance companies deny coverage to an entire area of the coast, they will force the states to get involved.

Riley, who has owned a condo in Sarasota, Fla., since the early 1980s, said his insurance payment is handled by the condo association and he isn't sure about the premium amount. In general, condo associations have master policies known as "all in" coverage that includes walls, floors, fixtures, installation and other items.

State Insurance Commissioner Walter Bell said he agrees with Riley when the governor says that he does not want the state to be in the business of insurance. "Our position all along has been that it is next to impossible to manipulate the market," Bell, who is from Mobile, said through a spokesman.

Some new companies are entering the coastal market, Bell noted. "However there are some things that can be done to help, and we have been working with legislators and other interested parties in determining what will work for the citizens in coastal counties and for the marketplace," he said.