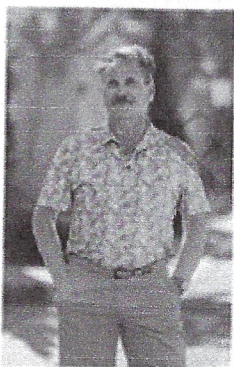


WSJ Print Edition



Mark Spero, below, president of Highland Park Community Association, was shocked at the insurance quote for last year. JESSICA PONS FOR THE WALL STREET JOURNAL (2)



Good article!

Jump in Insurance Costs Strikes Condos

BY NICOLE FRIEDMAN

Board members of the Highland Park Community Association in Mission Viejo, Calif., braced last year for a rise in insurance costs.

Yet they were still shocked to receive a quote for over \$170,000, which was more than four times what the association paid in 2022. An additional 12 insurers declined to offer quotes, because wildfire risk has made insurers less willing to do business in California.

The new policy provides up to \$70.9 million in property coverage to this community of 208 townhomes and condominiums. But in the case of wildfire damage, the maximum coverage would be \$2 million, said Mark Spero, the board's president.

"It was like a bombshell," he said.

The board raised residents' dues by 20%, the most the association allows a year, to \$474 a month. "This is not the direction any of us wanted to go, but there is simply no choice," Speros wrote to homeowners.

Insurance costs are exploding for condo associations across the U.S., raising the cost of homeownership and making it harder for some owners to sell their units.

Major losses from years of expensive natural disasters and higher rebuilding costs have pushed up property insurance prices for residential and commercial buildings in the U.S. At the same time, many condos are aging and have deferred maintenance, making insurers wary of the potential for water-pipe leaks and other damage, insurance brokers say.

The increase in insurance premiums is a major factor behind rising condo association fees. Condo dues rose 20% between 2022 and 2024, according to an analysis of 1,800 associations in 44 states by real estate tech company Rexera.

The rise in these costs is squeezing homeowners when home-buying affordability already hovers around its lowest level since the 1980s. Property taxes and home-maintenance costs are also climbing in much of the country.

In a 2023 survey of commu-

nity associations, 91% said their insurance premium increased at the last renewal. More than half of communities surveyed paid for the increase by raising annual dues or imposing a special assessment, according to the Foundation for Community Association Research. An additional 43% paid for the increase out of operating funds, and 2% took out a line of credit.

If homeowners fall behind on condo association fees and are unable to pay, associations in some cases can foreclose on homes to recoup the payments.

Some condo owners are looking to move rather than absorb higher fees. Mindy and John Dunbar, who are retired and live in a community of duplexes in Aurora, Colo., are paying \$399 a month to their homeowner association, but they expect the cost to keep rising because of higher insurance premiums and maintenance needs. They plan to list their home for sale soon and rent instead.

"The increased costs are driving us nuts," Mindy Dunbar said. "Obviously the HOA dues are going to continue to go up."

Condos and townhomes are often a starting point for homeownership. They are typically cheaper than single-family homes, which also appeals to retirees on fixed incomes. But higher monthly fees, along-side home prices that have climbed almost 50% since the end of 2019 and mortgage rates around 7%, are making these units less affordable for home buyers.

Many of the hardest-hit communities are in California and in Florida, where a new state law requiring older buildings to meet structural safety standards is also pushing up condo owners' expenses.

But condo and townhome communities around the country are facing big jumps in their insurance premiums.

Attorney David Firmin, who represents community associations throughout Colorado, said he has seen year-over-year insurance premium increases for condo associations between 300% and 1,000%, along with bigger deductibles.

About 10 million households own condos, co-ops or townhomes, according to a National Association of Home Builders analysis of the most recent census data. The median condo association fee is \$480 a month, according to real-estate data provider Attom. Those assessments pay for insurance, property maintenance and other amenities such as landscaping or swimming pools.

Communities' insurance deductibles are also rising, which transfers more financial risk from insurance companies to homeowners. In some cases, those high deductibles put the community out of compliance with conventional lending rules, meaning that home buyers wouldn't be able to get mortgages backed by Fannie Mae or Freddie Mac.

That can make it more difficult to sell a unit to a buyer who needs a mortgage. A seller would need to find a cash buyer or one who could get a nonconventional loan, said Dawn Bauman, chief strategy officer at the Community Associations Institute, an industry group.

"That will definitely increase the cost of homeownership," she said.

Associations have few options for reducing insurance costs. They can stop reporting small claims or change their bylaws to reduce overlap between the master insurance policy and individual owners' policies, said Kevin Hirzel, an attorney who represents condo associations in Michigan and Illinois.

The Pines at Keystone struggled to find insurance for 2023. The community of 144 condos and townhomes in Keystone, Colo., ended up with a \$960,000 policy, up from about \$110,000 the previous year, said Gretchen Davis, the board's president. The association approved a special assessment of several thousand dollars a household to pay for it.

"Basically we said, 'If you do not pass this, we do not have insurance,' " she said.

Later in 2023, they switched to a cheaper policy, and their insurance for 2024 cost \$200,000, Davis said. The association has raised annual dues by more than \$100 a month. Uncertainty about the association's insurance costs was one reason that some owners sold their units last year, she said.

"I am concerned that they won't renew us again next year," she said.

Some communities' bylaws cap how much they can raise dues from year to year, said Firmin, the attorney. In that case, "they're having to forgo maintenance to pay insurance premiums."

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