

High Winds, Then Premiums

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Bill Starling for The New York Times

Facing a 12-fold increase in his insurance costs, Walker Totty is trying to sell his Alabama gulf condo.

SAVE

By JOSEPH B. TREASTER Published: September 26, 2006

ORANGE BEACH, Ala. — Add this to the list of reasons real estate is cooling off in some of the hottest markets: soaring insurance costs.

Along the coast from Texas to Maine, owners of apartments and houses are being charged huge increases in premiums — in some cases more than 10 times what they paid last year.

The price rises are part of continuing fallout from Hurricane Katrina. Insurance companies paid more than \$57 billion to cover damage from the hurricane and three others last year. And faced with predictions of severe storms for years to come, they are charging higher premiums to try to insulate themselves from future financial damage.

The price increases far exceed anything in the past, and consumer advocates accuse the insurers of price-gouging. But Robert P. Hartwig, chief economist for the Insurance Information Institute, an industry group, said, "The escalation in the cost of insurance is a reflection of increased risk" from future storms.

The ripple effects are also being felt farther north, beyond the once-hot coastal markets in

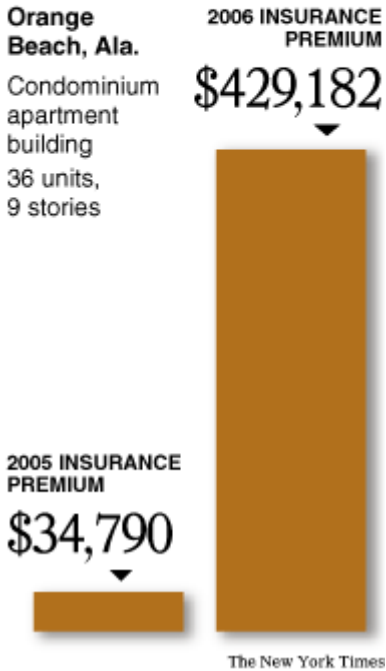
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## Premium Shock

As insurance companies adjust their rates after last year's hurricanes, home and building owners are seeing sharply higher premiums compared with 2005. Rates appear to have risen the most for condominiums along the Gulf and East Coasts.



the South. Coverage costs have tripled in some cases on Cape Cod and have risen as much as 50 percent on [Long Island](#).

Real estate experts say the rising premiums have contributed to the fall in housing prices, which are also under pressure from rising mortgage rates and the inevitable cooling of a too-hot market.

“In the South, the insurance issue is having a meaningful negative impact on sales,” said David Lereah, chief economist for the [National Association of Realtors](#). “It is less meaningful up the coast to the north, but insurance is definitely becoming a factor in sales there, too.”

The shock of higher premiums is being felt by people like Walker and Shirley Totty, who have lived for 11 years in a 36-unit building here overlooking a white-sand beach on Alabama's small stretch of Gulf Coast.

Mr. Totty, a retired manager of an auto repair and tire store in Birmingham, said the insurance premium for his building had jumped more than 12-fold, to \$429,182 annually this year, from \$34,790 in 2005.

His share of the new bill — about \$11,000, up from about \$900 — has created such a hole in his budget that he is trying to sell his condominium and move inland.

“If I stay here, I'm going to run out of money,” he said.

Not long ago, finding a buyer for an apartment on the Alabama coast, a popular area for second-home buyers, would have been easy. But Mr. Totty's property has been on the market at a price of \$565,000 for three months and no one has even inquired about it.

“The market is full of fear because of the storms,” said Larry Powell, a broker at Meyer Real Estate in Gulf Shores, Ala. “When you start seeing the cost of insurance in the range we're seeing it, you start thinking: Is it worth it? Can I afford to be here?”

Farther north, insurance coverage costs have not risen so sharply, but coastal homeowners are paying for heightened hurricane fears another way. On Cape Cod and Long Island, for example, owners have been forced to take on a much larger share of the risk of hurricane damage through higher deductibles.

Mike Chanman, sales chief in Boston for Hub International, a national insurance broker

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said that premiums on many condos on Cape Cod had doubled or tripled. Deductibles, in some cases, jumped to \$125,000 from \$5,000.

On Long Island, Alex M. Seaman, another Hub International broker, said prices were up 20 percent to 50 percent. For one condo building, he said, the annual premium had risen to \$175,000, from \$120,000, and the deductible increased to \$50,000, from \$2,500.

The higher insurance rates are also scaring off real estate investors, who generally do not plan to live in the apartments they buy. Typically, their strategy has been to rent the apartment for most of the year to cover mortgage payments and other fees, perhaps use it for a few weeks of vacation, and then sell it for much more than they paid.

But the higher insurance costs have forced investors to redo their back-of-the-envelope math. And for many, the numbers are not adding up.

“People were buying condos with the idea of ‘cash flowing’ them — having them pay for themselves with rental income,” said Kay Stephenson, a broker at Crump Insurance Services in Atlanta. “But now you have the cost of insurance and you have to increase the cost of the rental, and people are just not able to do it.”

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