

DISASTERS AND INSURANCE IN CONDOMINIUMS

by

Lou Biron
Sihle Insurance Agency

Paul L. Wean Wean
& Malchow, P.A.

HYPOTHETICALS FOR DISCUSSION

Scenario #2. Cocoa Beach takes a direct hit from the east by Hurricane Annette - a category 4 hurricane. It strikes a two-story multi-condominium project named Patty's Hideaway Condominium. This community has ten (10) two (2) story buildings, and each building has ten (10) units a piece. It is a multi-condominium because each building has its own recorded declaration. All condominiums are operated by a single Association.

Patty's Hideaway Condominium was built in the mid 1970s. It has concrete block construction with wood truss roofs. It has not been hardened or structurally updated since its original construction.

The five (5) buildings closest to the shore are completely destroyed, The second five buildings are all without roofs and though currently uninhabitable, they are reparable. However, it is unclear - given the current "country estate" zoning classification of this property - whether the five (5) destroyed buildings can be rebuilt.

The property casualty coverage on each building includes a windstorm policy with a 3% deductible. Each building will cost \$950,000 to replace, but each is insured for only \$700,000. The Association carries a flood insurance policy and accepted the "Law and Ordinance" option on the master policies. Two (2) of the five (5) destroyed buildings are found to have collapsed due to the force of the storm surge. The other three (3) destroyed buildings were destroyed primarily by the force of the wind.

The Association took no other actions to prepare for disaster. None of the condominiums have reserves but the Association has \$15,000 in cash on hand .

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Scenario #1. Hurricane Clarice, a Category 3 storm, strikes Ft. Lauderdale, from the southeast. It tracks northerly, meandering up the east coast of Florida. As it contacts land and cooler water it loses energy. By the time it reaches the Space Coast it is only a Tropical Storm. However, it strikes a five (5) story high-rise condominium called "a Shoddy Condominium," built by Third Eye Construction. Though built in 2002, Shoddy's work only meets the 1995 building code, thanks to a payoff to the local government inspector.

The condominium has fifty (50) units, with a replacement value of \$9 million. The Association passed on the optional "Law and Ordinance" policy option.

Rooftop AC units are blown off and gaping holes are created in the roof, allowing substantial water damage throughout the entire building. The south side of the building had additional damage from shattered windows and sliding glass doors where there were no hurricane shutters, or where the shutters were not lowered, or where they were dropped but failed, and further water intrusion and wind damage resulted.

The condominium documents for Shoddy provide that the Association shall operate the hurricane shutters. Although a state of emergency has been declared, some owners have not left their units.

The Association has taken the following actions prior to the disaster:

1. Obtained a windstorm policy with a 5% deductible (i.e. \$450,000)
2. Adopted a pre-authorized special assessment to cover uninsured losses and deductibles in the amount of \$500,000.
3. Obtained a stand-by line of credit from Bear Stearns in the amount of \$500,000, for a fee of .5% fee (\$2500) per year.
4. They have \$200,000 in all existing reserve accounts and \$100,000 in cash on hand .