Hurricane Payoffs Languish in Doldrums

Christopher Boyd, New York Times Real Estate

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Hurricane "Andrew" has never really ended for the residents of the Village of King's Creek. Today, more than two years since the ferocious storm destroyed thousands of homes 10 miles south of this city's downtown, the owners' association at the 1,067-unit condominium is still seeking payment for an insurance claim for repair to roofs, windows, and balconies.

"The tensions here are high," said David S.Friedman, The Village of King's Creek property manager. "Every week, 10 or 15 apartments here suffer water damage from leaking roofs. We've had balconies collapse. Some people haven't even been able to open their windows for two years."

Mr. Friedman blames the complex's New York insurance company, Public Service Mutual, for the residents' problems. The Association has submitted a claim for $7 million to cover repairs, but Mr.Friedman says the insurer has thus far paid just $270,000.

The dispute, he said, centers on how much compensation the Association should receive. Paul Calio, Public Service Mutual's assistant vice president for property claims, would not discuss his company's position or any details of its dispute with the condominium association.

"My feeling is that it would not be fair to me, or P.S.M., to discuss any of our cases with outside people," Mr. Calio said.

Hurricane "Andrew" caused nearly $20 billion in property damage when it slashed through southern Dade County on August 24, 1992. While much of the storm-battered region has come a long way toward rebuilding, the hurricane's legacy continues to haunt several condominium complexes.

Some, like the Village of King's Creek, are struggling, with unresolved claims. Many more are finding commercial property insurance difficult to get and, when it can be found, much more costly than before the hurricane. (Residential insurance is available only to homeowners, but condominium associations may apply for commercial property insurance.)

"Hurricane Andrew was the shot heard around the insurance world," said Kevin McCarty, industry coordinator with the Florida Department of Insurance. "No disaster has ever been like Andrew. It created an insurance epiphany, and many companies took a hard look at their exposure, and their capacities to insure. The pre-Andrew days are gone, and things will never be the same again."

Condominium associations that cannot find commercial property insurance generally are turning to a new state-administered program, the Florida Property and Casualty Joint Underwriting Agency. In the event of a major storm, insurance companies selling condominium policies in Florida would be obliged to contribute up to 10 percent of the previous year's premiums to the program to guarantee paying out claims.

The Condo-GAO, as the state program is known, now insures about 500 condominium complexes as well as other commercial properties.

Like a similar state program for residential property developed after Hurricane "Andrew," the Condo-GAO is undercapitalized and lacks the means to repay the large claims that would follow another devastating storm. Critics of the program say that even with its high premiums, rates charged to Condo-GAO customers are still too low.

So condominium complexes damaged in Hurricane "Andrew" are caught in a bind. As they continue to negotiate settlements, they're worrying about what will happen if another storm blows ashore.

Joan Hill, an agent with the J. I. Kislak Insurance Agency in Miami, said that low-rise condominiums were the most vulnerable in the new insurance environment.

"The buildings with joint and masonry construction are the ones that really have a problem," she said. Those types of buildings became most suspect after Hurricane "Andrew" because of the damage they suffered."

That type of construction -- concrete blocks, or poured concrete, and, generally, wood roof trusses -- is common in South Dade, where "Andrew" caused the most damage. At the Snapper Village Condominium in Kendall, near Village of King's Creek, the Association is still grappling with damage from Hurricane "Andrew."

Jessica Roman, the Association's president, said that the 783-unit complex had submitted a damage claim in excess of $12 million to its insurer, Reinsurance Company of New York, and was still trying to collect much of the money. She said the Association had put in a claim for $12 million, but so far had received only $4.5 million.

The problem began in late 1993. Ms. Roman said the insurer had determined that the complex had not carried adequate coverage for its losses, and suspended payments. The dispute led the Association to sue the insurer. Since then, she said, the condominium association has faced several crises, at one point borrowing more than $1 million to cover a debt to a construction contractor.

"We were forced to explore a line of credit," Ms. Roman said. "With the money, we were able to pay the contractor, but to do that, we had to bleed the community dry of its own money."

As needed repairs go untended, Ms. Roman said, the complex of two-story town houses and three-and four-story apartments deteriorates.

"We have damaged roofs, termite-infested wood, sidewalks that are broken up, and many more problems," Ms.Roman said. "Our unit owners are very upset because they're no longer living the way they expected to live."

To make matters worse, Ms. Roman said, the complex's insurance rates have more than doubled since the hurricane. The Association now is part of the state's Condo-GAO.

"we are plugging a dike here, and the dike keeps springing new leaks," Ms. Roman said.

Charles R. Tutwiler, an insurance loss consultant who worked for both the Village of Kings' Creek and Snapper Village, said condominiums that suffered damage had faced myriad obstacles in seeking payment for claims.

"In Dade County, the disaster continues to go on," Mr. Tutwiler said, with the biggest problem being the scale of the damage done to big condominium complexes.

"The insurance companies came in with a multitude of adjusters," Mr. Tutwiler said, "The companies would not' give one adjuster the authority to handle a $10 million decision."

Mr. Tutwiler said the complexity of the appraisal process, and the lack of a state arbitration process used in settling homeowners' insurance disputed, had made it difficult to resolve condominium claims. Mr. Tutwiler also said that the condominium associations were often slow in submitting claims, often assuming that the insurance companies would handle matters.

"There's fault on each side of the equation," Mr. Tutwiler aid. People need to realize that someone only serves one master in this world, and an insurance company's adjuster serves the interest of the insurance company. Most people think that all insurance is like life insurance. When someone dies, someone else expects to get a check. It does not work that way in the property market. It's a lot more complicated."

An article by Christopher Boyd, taken from the New York Times Real Estate, Sunday, September 25, 1994, and in the Public Domain.