



Understanding the rising cost of HOA insurance - by Tyler Schlapkohl

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Homeowners association (HOA) insurance plays a vital role in protecting and maintaining managed communities. These policies have long provided residents with essential personal and property coverage, along with peace of mind. However, one significant issue challenging HOAs nationwide is the dramatic rise in the cost of insurance premiums. New York is no exception and continues to be one of the regions most impacted by this trend. The rise in insurance premiums has created a severe financial strain for many HOA and co-op residents, prompting deep concern within the insurance industry.

“Hard Markets”

One of the biggest factors for New York City insurance policy holders is that they are experiencing what is called a “Hard Market,” i.e., an upswing in the insurance market. This is a market cycle in which premiums are escalating while capacity is simultaneously reduced for most types of insurance. At the same time, insurers tighten underwriting standards and more closely monitor premiums. It goes without saying they are disinclined to negotiate terms.

In addition to many coverage limitations and capacity restrictions, there are a limited number of insurance carriers who will write policies in NYC. In fact, there are only two primary players in this market: Greater New York and Admiral Insurance. Other companies were unable to maintain profitability and abandoned the city all together.

The decline of risk purchasing groups

Over the past 25 years virtually all co-op and condominium properties in the New York area had umbrella policies insured by risk purchasing groups. These groups layered coverage with multiple carriers to provide a cheaper rate and mitigate risk. They could do so because litigation rarely exceeded the \$1 million limit provided by the general liability and directors and officers coverage.

In the last three years, however, claims exceeding \$1 million have increased dramatically due to New York labor laws. Nor does this upward trend show any sign of slowing. It has led to huge underwriter losses, forcing many carriers to exit the NYC market. The few carriers that remain provide lower coverage limits, higher premiums and stringent underwriting requirements.

Higher construction costs

In the past, there were a number of ways to minimize HOA insurance costs. Boards could address claims and faults, replace old or damaged amenities, shop around to multiple carriers, bundle policies, increase deductibles etc. However, none of these options make much difference anymore due to significant increases in building materials and construction costs. Increased state requirements are also working to drive up costs.

New York’s strict building codes require HOAs to maintain and update their properties for safety measures. Five years ago, the average construction cost for NYC HOA complexes was \$350-\$400 per s/f. In addition, some underwriters accepted valuations as low as \$200 per s/f on high-rise buildings. Today, few of these properties can be rebuilt for under \$500 per s/f.

Most construction prices, in fact, have doubled with the average cost now in the range of \$700 per s/f. Insurance companies must take into account these increased replacement costs in order to adequately insure the buildings. Even for buildings with zero loss history in the past five years, these increased valuations have led to a 20-30% average increase in premium every year. As a result, many HOA buildings end up being underinsured.

What does the future hold?

So, what does the future of the HOA insurance industry look like? Unfortunately, there is no one solution that will fix this instantly. Some are optimistic and say that insurance is cyclical, and it is only a matter of time until things are back to normal. This time, however, we are dealing with many more factors, and it may take the industry much longer to heal.

We are certainly hopeful that the insurance industry will take action to shift from its current “hard market” cycle to a more relaxed scenario for HOAs and managed communities. But for that to happen we must see a decrease in losses, improved underwriting results, favorable economic conditions, regulatory changes, and increased competition. While the industry is already working to address some of these issues, asking for all of them to fall perfectly into place is a tall task.

Unfortunately, there is little HOA residents can do in the immediate future other than eat the increased premiums. While this may hurt it is a much better alternative than having no coverage at all. The best and only sure way to prepare in this market is to expect a 20%-30% increase in insurance rates and budget for it accordingly. At the same time be upfront and effectively communicate with homeowners so they are aware and understand the need for any subsequent increase in dues.

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