

Soaring Hurricane Insurance Rates Leave Hundreds of Hawai'i Condo Buildings Under-Insured - Hawaii Business Magazine

Janis Magin Meierdiercks

One local insurance agent estimates that the owners associations for as many as 390 buildings have renewed their policies with less than 100% replacement coverage.



If a condo building is under-insured, people trying to buy units in the building might have trouble getting mortgages. | Photo: Aaron Yoshino

Hawai'i hasn't taken a direct hit from a major hurricane since Iniki devastated Kaua'i and damaged homes along O'ahu's Leeward Coast 31 years ago. Nonetheless, mortgage lenders require Hawai'i homeowners to carry hurricane insurance that can cost two to three times the annual premiums for a conventional homeowner policy.

A condominium building or complex carries a master hurricane policy that covers 100% of the cost to replace the property – millions of dollars in many cases. Now premiums for those policies have

risen so high that hundreds of owner associations are reducing coverage to less than 100%.

That's creating headaches for everyone associated with Hawai'i condos, from lenders to insurance agents to buyers and sellers of condos.

"Right now, hurricane insurance is very expensive, and these condos can't afford to pay for it," says Sue Savio, president of Insurance Associates in Honolulu, whose clients include many of the condo associations on O'ahu. "So there are a slew of condos, mainly high-rises, mainly O'ahu, but other islands too, that don't have 100% hurricane coverage."

Savio estimates that owners and condo associations at 375 to 390 buildings, including new high-rise towers in Kaka'ako, have opted to renew their hurricane insurance policies with less than 100% replacement coverage. There are four standard insurance companies that write property and hurricane policies for condos, according to Hawai'i's rules, and one, State Farm, continues to do renewals but hasn't issued a new policy in the Islands since Iniki in 1992. The other three are First Insurance Co. of Hawai'i, Allianz and Dongbu Insurance.

Rates for hurricane insurance and regular homeowner policies in Hawai'i [have been driven up](#) by disasters around the U.S. and the world. The market for reinsurance, which is the insurance that property and casualty insurance companies pay to share their risk, is global, so storms and other catastrophes that strike anywhere in the world impact what homeowners and condo associations must pay for coverage in Hawai'i.

Some condo associations are forced to go to the secondary market if they are dropped by the standard insurers for having too many claims, or if their buildings have put off renovations or deferred maintenance on big-ticket items such as aging pipes. Savio notes that more than 700 condo buildings on O'ahu were built before 1990, so there are a lot of old pipes.

Insurers on the secondary market are not bound by state rules or rates, so their prices can be more expensive than from standard carriers.

Savio cites the example of one high-rise in Waikiki: The condo association had been paying an annual premium of \$235,000 for property and hurricane insurance and had already been dropped by two of the standard insurance companies when the third declined to renew. The reason: The building's aging plumbing hadn't been replaced.

"They had to go to the secondary market and it was \$1.2 million," she says. "That's \$1 million of maintenance fees down the tubes because they didn't fix their pipes."

Harder to Get Condo Mortgages

The consequences of under-insured condo buildings filter down to the individual owners. People who want to buy units in buildings with less than 100% replacement coverage may have difficulty finding lenders willing to give them mortgages – in such cases, most local banks won't lend them money – or they may have to pay higher rates.

That's because Fannie Mae and Freddie Mac, which purchase mortgages from banks and other lenders, require that multifamily properties have windstorm coverage (which includes hurricanes) for "[100% of insurable value](#)."

Hawai'i state law, specifically [Hawai'i Revised Statutes Chapter 514B](#) governing condominiums, has a similar rule. It requires property insurance "in a total amount of not less than the full insurable replacement cost of the insured property" but prefaces that with "unless otherwise provided in the declaration or bylaws."

Banks and other lenders in Hawai'i started noticing that a few condos had less than 100% coverage about a year ago, says Linda Nakamura, a legislative chair for the [Hawai'i Mortgage Bankers Association](#). And over the summer, when lenders began seeing more and more under-insured condos, Nakamura and Victor Brock, also a legislative chair at the HMBA, began sounding the alarm with their members and state officials.

They have also met with state Insurance Commissioner Gordon Ito to talk about what could be done, such as looking at changes to HRS 514B, or attracting more insurers to do business in Hawai'i. They also looked at opening up the Hawai'i Hurricane Relief Fund, which has [reserves of \\$189.7 million](#).

"It's kind of snowballing right now," says Brock. "It's in the discovery phase for some lenders that the situation is going on."

While local lenders have become aware of the situation, most mainland lenders are still writing mortgages for those condos, even those that have local offices in Hawai'i. Brock points out that while the mainland lenders may have local loan officers, the underwriting may be done on the mainland by people less attuned to hurricane insurance.

Unique to Hawai'i?

Hawai'i may be the only state where widespread under-insurance of condos complexes is happening.

"We have asked around and could not find other states with this issue," Nakamura says. "We've also reached out to Fannie Mae and Freddie Mac to ask them because they must know if different states are not selling to them because of this, but they could not tell us."

She notes that Florida has had several major hurricanes in recent years, including Hurricane Ian, which caused more than \$50 billion in damage in 2022, and Hurricane Idalia, which caused up to \$5 billion in damage in August 2023.

Meanwhile some Hawai'i lenders may require higher down payments or higher credit scores from condo owners, says Jay Miller, a loan officer at [Hawai'i Mortgage Group](#).

"We have had some success running loans through our mainland partners, but I don't know how long it's going to continue," he says.

Some buyers are also purchasing supplemental hurricane policies as gap coverage to make up for the shortage," says Realtor Jonathan Ford, principal broker of Honolulu Property Finds, better known by its website, [HiCondos.com](#).

"I don't think it's on people's minds," says Ford, who hasn't yet had any clients turned down for loans because of hurricane insurance. "I think it's going to be an unhappy surprise when it does happen."

Condo owners in buildings with insufficient coverage may find it hard to sell their units or get home equity loans.

"They're not going to be able to get a home equity loan if they need to fix anything, if they've got a major item in their unit that needs to be fixed," Nakamura says.

Brock anticipates a major impact on first-time homebuyers, since condos comprise such a high percentage of Hawai'i's housing stock, especially on O'ahu.

“If you think about affordable housing in Hawai‘i, in the majority of the state, the most affordable housing is a condo. It’s going to create complications for folks with low to moderate income,” he says.

“If they can’t get financing because the building doesn’t have sufficient hurricane coverage and no lender is willing to make a loan, or if their lending options are limited, it’s going to be a bad situation.”

It’s one more thing that’s going to make it harder to buy or sell a condo in Hawai‘i, say the experts I spoke with.

The [2021 collapse of the Surfside condo building](#) in Miami is also having a ripple effect on condo lending. This year Fannie Mae and Freddie Mac made [permanent the rules for condo lending](#) that were created in the wake of that disaster and ceased buying loans for buildings or projects that have put off major repairs – such as replacing old pipes. The new rules also prohibit the sale of a loan on a condo building that has unfunded repairs [totaling more than \\$10,000 per unit](#).

Major litigation cases can also make a condo ineligible for lending under Fannie Mae rules, as well as if a building is considered a hotel-condo, or if it has too much commercial space. While condo associations are responsible for purchasing the master property and hurricane insurance policies for their buildings, individual condo owners are also required to buy what’s known as HO6 policies. Such homeowner insurance policies cover everything inside the walls of a unit, from kitchen cabinets and appliances to furniture, clothing and other personal possessions, and typically cost a few hundred dollars per year.

But those are getting harder to get, too. Savio says one company is not renewing policies, while another will only insure condo units if the building’s pipes are 15 years or younger.

And that’s only if a customer hasn’t made too many claims.

“Nobody is writing policies now for anyone who has two claims – nobody,” says Savio.

Climate Change Creates Challenges

Recent storms like Hurricane Lane in 2018 have brought wind and flooding to parts of the state, but there has been nothing like the [\\$2.3 billion in damage caused by Iniki](#) in 1992.

But climate change is bringing more weather-related catastrophes. The National Centers for Environmental Information says that in 2023, as of Dec. 8, the U.S. had been affected by “25 confirmed weather/climate disaster events with losses exceeding \$1 billion each.” That record total of events – which includes inflation adjustments for previous years – exceeds the previous annual record of 22 events; the annual average over the past five years is 18, a higher average than in previous decades.

The Aug. 8 wildfires on Maui are considered weather-related because of Hurricane Dora, which was passing south of the Islands. Strong winds influenced by Dora drove [the fast-moving fires](#) that leveled Lahaina and killed at least 100 people.

“We’ve always been rated for hurricanes; we’ve never been rated for wildfires,” says Savio, who noted that O‘ahu had its own major wildfires this year in Mililani and Wai‘anae. “What’s happening now is West O‘ahu and some areas are going to be rated with wildfire exposure. Parts of all islands are going to be rated for wildfires.”

Brock noted that Acapulco, like Hawai‘i, was unaccustomed to destructive hurricanes making

landfall before Hurricane Otis slammed into the Mexican beach resort city on Oct. 25, killing 50 people. It's estimated the storm caused [up to \\$4.5 billion in damage](#).

"That was a tropical storm that went to Category 5 hurricane in less than 12 hours," he says. "With climate change, I think that the insurance companies are saying we can't base our losses on history because things are changing with climate change and look what happened in Acapulco."

All of it adds up to turmoil in what Savio calls "condo land."

"There's a lot of unrest and turmoil, not only for the owners (but) for the management companies, for the boards, for the property managers, for the insurance agents and, of course, for the insurance companies," she says. "There's a lot of turmoil."

Questions for Unit Owners to Ask Their AOA Board

The list of questions below is not exhaustive nor is it intended to provide legal advice. They are intended to help unit owners become informed about the condition of their buildings and to create dialog with their AOA board.

1. When was the last time our building was inspected for structural soundness?
2. Does the reserve fund include sufficient funds to timely repair and/or replace all critical building components including but not limited to plumbing systems, spalling and windows?
3. How old is the plumbing system in our building?
4. Is there a plan for plumbing system replacement?
5. Are fire sprinklers being considered at the same time as pipe replacement?
6. If sprinklers are not installed, will this affect our ability to procure insurance for the building?
7. Does our building mandate smoke detectors in each room of every unit?
8. What is our building doing to ensure water leaks are mitigated?
9. Do we have a plumbing policy?
10. Do we have regular plumbing inspections? If yes, what is the policy for recommended repairs? If no, why not?
11. When was the last time all of the horizontal and vertical main drains were cleaned by a licensed plumbing contractor?
12. For water heaters within units, does the Board require replacement when the warranty period is over? If yes, is this enforced? If no, why not?
13. Has the Board considered water detection devices within units to mitigate water losses?
14. Is our building insured to its full value for hurricane insurance? If not, what is the plan to procure hurricane insurance?
15. If hurricane insurance is not purchased for the full value of the building, what are the consequences including Board liability, value of the building, buying and selling of units, and inability to secure mortgages or HELOCs?
16. Is unit owner's insurance being reviewed annually by the Board to ensure compliance with deductibles of the master policy?

Things Unit Owners & Their Tenants Can Do to Help Prevent or Reduce Claims

In addition to asking your AOA Board about issues important to a building's health, unit owners or tenants can proactively inspect the units they occupy for tell-tale signs of water damage issues. Contact your property manager and/or a licensed plumber if problems are noted:

1. Check for potential problems and/or leaks from plumbing supply lines to:
 - Refrigerators/Icemakers
 - Washing machines
 - Water heaters
 - Dishwashers
 - Toilets
 - Sinks
2. Look for condensation around the pipes;
3. Watch for stains on walls or ceilings, or musty smells; and
4. If your unit has a fire sprinkler, make sure you do not hang or support anything on the sprinkler head, pipes or other components.

To submit testimony or watch the hearings on the bill, please visit:

<https://capitol.hawaii.gov>



01

HB2685 - RELATING TO ENERGY

Establishes a Solar Hui investment fund for condo owners who will support the installation of solar energy systems statewide.

02

HB2686 - RELATING TO THE STABILIZATION OF PROPERTY INSURANCE

Supports the retention of property insurers in the State of Hawaii and allow lenders to meet requirements of the secondary mortgage market.

03

HB2801 - RELATING TO COMMERCIAL PROPERTY ASSESSED FINANCING

Allows condominiums to be eligible for commercial property-assessed financing.