

Short-Term Rentals Examined

By **MICHAEL W. FREEMAN**

The Reporter Editor

KISSIMMEE -- It was exactly one week before Tropical Storm Ernesto began ominously taking aim at Florida that Ken Toney met with the members of the Central Florida Property Managements Association to talk about insurance. His outlook was as bright and sunny as the weather outside.

Toney, owner of Florida Chartered Insurance Group, largely discounts the view that two very destructive hurricane seasons in a row have sent a lot of insurance carriers packing their bags, closing up shop and leaving Florida for less stormy destinations -- and leaving behind customers now scrambling to find new carriers. Toney said while the media tend to play it up when major insurers drop policies or stop writing new ones in Florida's coastal areas, smaller carriers are still available, and still writing new policies.

In fact, Toney was meeting with the property managers to find some new customers.

"Yes, we're very aggressively writing policies now," Toney said.

David Leather, president of the CFPMA, agreed that despite all the hype insurance isn't even the biggest concern for the vacation rental industry, which has been a critical economic factor in Four Corners -- and a fast-growing one.

A recent study by Webber International University concluded that vacation homes have grown 378 percent in Four Corners -- from 1,876 homes in 2001 to 7,088 in 2005. Last year, the vacation home industry contributed \$3,538,607 in tourism development taxes to Polk County, and regionally it has brought 13,000 jobs to the area, the study noted.

With the recent slowdown in the real estate market, the last thing the industry needs is for insurance to become a major headache to find. But Leather said that's not the case right now.



Vacation Village in Clermont is among the short-term rental businesses affected by high insurance rates. (LINDA CHARLTON/The Reporter)

"It's relatively easy (getting insurance) if you know which channels to go down," Leather said.

That's not to say that Florida isn't coping with problems when it comes to finding residential or commercial insurance. Insurance companies responded to the two stormy summers by dropping policies or raising rates in many cases.

Allstate dropped 95,000 policies in Florida, State Farm Insurance won regulatory approval to raise rates by 8.6 percent, and Nationwide Mutual Insurance is dropping 35,000 Florida customers, not writing new policies in the state, and won approval for a 21 percent rate hike. Across the state, real estate transactions have been cancelled because the buyer was unable to find an insurance company to write a new policy.

Florida isn't alone, though. Home insurers in Louisiana, Mississippi and Texas are also refusing to write new policies, or leaving potentially vulnerable coastal areas -- and this isn't just a problem in the South. Some coastal Massachusetts homeowners are paying higher premiums, even though the state hasn't experienced a serious hurricane since 1991.

"What last year taught me was it doesn't matter where it strikes, you're going to be impacted," said Jeanette Coughenour, manager of the Association of Poinciana Villages.

Poinciana was badly hit by Hurricane Charlie on Aug. 13, 2004. As a result, the APV lost its insurance earlier this year and had to scramble to find a new policy.

"It's not as comprehensive as far as what we had before," Coughenour said. "We went from a \$2,500 flat deductible to a \$295,000 deductible. The insurance cost itself doubled. The company that we had -- which was an excellent company, Philadelphia -- stopped writing commercial policies in the state of Florida so our assets had to be covered by a split between three companies. One insurance company says, 'We're willing to take a risk up to X,' so we take them up to X, and the next company will take it up to Y, and so on. It's ridiculous."

Four Corners is well inland and away from the coast, but after three hurricanes hit the area in August and September 2004, it became clear that inland regions were no longer immune to the possibility of insurance problems.

"Everybody has had some challenges with insurance lately," said Steve Leary, who operates the Vista Del Lago manufactured home community and shopping plaza on U.S. 192 and is a member of the Four Corners Area Council.

Difficult -- but not impossible, he added.

"It hasn't prevented us from getting insurance for new tenants," he added. "If you

find the right (insurance) partners and have proven over the long term you can do things the right way, you can get things done."

Gary Landry, vice president of the Florida Insurance Council, Florida's largest insurance trade association, said not enough attention is given to small carriers who are still writing new insurance policies.

"We are hearing -- and that's what we've heard the last couple of months -- is about the reduction in writings for certain insurers," he said. "But there are insurers who are writing in most parts of the state, and unfortunately that's not exciting news to anyone. The more exciting news is that an insurer had to stop writing. But homeowners are generally able to get insurance, if not through the private industry, than through Citizens Property Insurance." Citizens is the state-run insurer of last resort.

"We don't have an insurance crisis," Landry added. "We have a hurricane crisis. What is driving all of this is hurricanes. We have not yet figured out how to stop hurricanes from hitting. We're in the 10th year of a 30-year cycle of hurricane activity. It's just a fact of nature. The cost related to dealing with hurricanes is what insurers are dealing with, and that is a risk."

Leather, who is also president of Hayes Vacation Homes in Kissimmee and a member of the Four Corners Area Council, agreed.

"Of course, getting insurance doesn't just apply to vacation rental homes," he said. "I know from last year and the year before, if someone had bought a house and closed on it, it was difficult to get insurance. Sometimes we had to search around to find a broker who would write a policy."

But Leather said the insurance industry appears to have taken the steps needed since 2004 to remain solvent.

"I think the system is now in place to overcome these problems because we've been through it already," he said, a day before Ernesto soaked much of the state. "Two years ago it was probably a bigger problem."

Toney agreed, noting, "There are still 20, 30 carriers writing policies in the state. The media will tell you there's only a few, but that's not true."

What has changed, he acknowledged, is the cost of insurance.

"The rates have gone ballistic," he said, adding that those rates reflect the huge losses so many insurance carriers experienced after 2004.

"So many people think the insurance companies are making so much money," he said. "They're not."

Toney is an example of that. Florida Chartered Insurance Group represents 9,000 property managers in the short-term rental industry, and he's seeking new customers. As Toney told the CFPMA during its meeting at the Falcon Fire Golf Resort on U.S. 192, his company has even gotten an international, toll-free number so that vacation home owners who live in the United Kingdom can easily reach his office.

"We are trying to make it really easy for your customers to reach us," he said. "We have live Internet chats so our clients can speak to an agent instantaneously by computer. We also do a monthly newsletter that goes out electronically to 3,000 of our customers."

That kind of activity, he said, counters the myth that insurance carriers want no part in writing new policies.

"David (Leather) told me last week that one of his owners said they have no insurance and can't get it," Toney said. "They had it by the end of the day."

"He is very good and very helpful and does seem to have a lot of pull in terms of getting insurance companies to access policies," Leather said of Toney. "What is a concern to us is cases where for one reason or another the insurance has lapsed and the owner can't renew it. That's becoming more and more difficult, and not just for vacation homes."

Still, he added that the short-term rental community has bigger concerns these days, including the turnaround in the once hot real estate market.

"I think we've all got a concern about the great number of new vacation homes that have suddenly become available on the market, and the increase in tourism isn't at the moment catching up with that," he said. "If we all have got 30 percent more houses than last year, we all need 30 percent more tourists to fill them. I don't see that there is a 30 percent jump in tourism to fill all the accommodations that are available."

Landry said to keep in mind that insurance is hardest to find where the storms hit the hardest.

"There are a couple areas of the state, obviously, where private insurers have had to pull out coverage and reduce their writing. They are mostly along the coast," he said. "That's a direct result of more than \$35 million in losses in the last two years."

"It doesn't mean insurers are not writing in other parts of the state. Insurers are aggressively writing in some parts of the state," he added. "It's going to vary company by company as far as who is writing, and where. But as you get away

from the coastal areas, especially in South Florida, it's going to be a little easier to find. In addition, homes that are newer, those constructed under the much more stringent building codes enacted since 1992, are theoretically easier to place with insurers. It's the whole idea of lowering the risk. The more modern a home is and hurricane proof it is built, generally the easier it will be to find coverage."

He added, "It only takes one Hurricane Andrew to create huge, huge losses, as we saw with Andrew in 1992, and as we saw with Katrina (in 2005). It could be the first named hurricane of the season, or the 20th."

Tropical Storm Ernesto turned out to be a dud, far less severe than initially anticipated. Still, Coughenour said on the day before Ernesto brought heavy rains to the state, insurance companies stopped writing new policies, and then resumed doing that on Aug. 31, the day after Ernesto left the state.

"This has been a learning experience for all of us," Coughenour said. "I'm hopeful that at some point our legislature will address this. I guess we'll see, since we have an election coming up."