

Coastal Insurance Crisis

Windstorm policies are pricey and hard to find; new construction suffers

An ocean view — or even a faint whiff of salt air several miles inland — carries a high premium along the Atlantic and Gulf coasts this year.

In the wake of catastrophic insured losses that totaled \$61.2 billion in 2005 — of which \$40 billion was from Hurricane Katrina alone — property-insurance companies have been raising rates and deductibles for coastal windstorm policies. In some high-risk locations, insurers are pulling out completely.

Despite their use of sophisticated disaster models, insurers simply didn't anticipate that 2004 and 2005 would be so costly — seven of the 10 most expensive hurricanes in U.S. history made landfall during those two years. So even as insurers paid out claims last winter, they were busy updating their failed risk models — and they were careful this time to take into account predictions of higher-than-average tropical-storm activity for the next 15 to 20 years.

Insurers are also now factoring in a higher cost for “demand surge,” which is the industry's term for the post-disaster rise in home-repair costs. Past models estimated that importing supplies and housing nonresident labor — the most significant contributors to demand surge — added 26 percent to the cost of repairing a house. After examining data from recent hurricanes, risk modelers raised that number to 40 percent.

Because of these and other adjustments, catastrophic reinsurance costs for coastal properties have gone up between 100 percent and 300 percent this year, says the Insurance Services Office, a risk-modeling firm based in Jersey City, N.J.

Insurance companies regularly buy reinsurance to cover *their* losses, and — not surprisingly — they're passing the higher costs along to policyholders.

For example, Louisiana homeowners are looking at double-digit increases for windstorm policies, reports the *Insurance Journal*. In Florida, state regulators approved a request by State Farm Florida Insurance Co. to raise rates an average of 52.7 percent statewide. And in mid-Atlantic states like Maryland and Virginia, reports the *Washington Times*, Allstate Insurance Co. and Nationwide Mutual Insurance Co. have increased their minimum windstorm deductible from 2 percent of a claim to 5 percent, a difference that can amount to thousands of dollars.

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Regulations meant to prevent heat-related illness went into effect in California on July 27. The Cal/OSHA rules require employers to provide outdoor workers with one quart of drinking water per hour and access to shade for at least five minutes whenever necessary to prevent or alleviate heat stress. In addition, employers must train employees and supervisors to recognize and treat heat illness. The new law replaces emergency rules put in place in August 2005.

Massachusetts and Minnesota have become the eighth and ninth states to enact laws that require carbon-monoxide detectors in residences. The Massachusetts law, effective in March, applies to all residences, new and existing, that use fossil-fuel-burning equipment or that have enclosed parking. Minnesota's legislation, signed into law in June, will be implemented in stages. Installation of detectors in new construction becomes mandatory in 2007. Existing single-family homes have until August 2008 to meet the state standard, and existing multi-family units must comply by August 2009.

In the News

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Where rate increases aren't feasible, companies are fleeing the coastal insurance market altogether. In locations deemed to have "extreme potential for megacatastrophes to occur," Allstate has stopped writing new policies and won't renew existing policies. Arguing that it's "nearly impossible" to price insurance when events are so unpredictable, the company is dropping windstorm coverage entirely in coastal regions of Texas as of September 15. It has also stated that it won't renew some 120,000 policies in Florida beginning in November and that it will no longer renew policies in New York City and on Long Island.

State Farm — which covers roughly one in five Florida homes — is also withdrawing from coastal areas. It's dropping coverage for 1,500 condo associations and reducing coverage for 39,000 customers. And Nationwide cut back 35,000 policies last year in Florida and isn't taking on new customers.

As a result of this exodus, tens of thousands of homeowners in coastal areas from New York to Texas are finding that the only windstorm coverage they can get is from state-sponsored insurers of last resort.

These state-run windstorm plans are similar in intent to the National Flood Insurance Program, which was established in 1968 after private insurers refused to cover flood damage. The NFIP aimed "to reduce future flood damage through floodplain management," but its critics charge that its primary achievement has been to shift the burden of rebuilding to taxpayers' shoulders. Windstorm insurers of last resort are drawing similar charges; they, too, failed to collect enough in premiums to cover their losses last year, and have had to make up the difference with federal funds and statewide assessments.

As for builders, problems with affordability and availability of insurance — including builder's risk — are "pretty much at the top of our hit parade," says Douglas Buck, director of governmental affairs for the Florida Home Builders Association. Homeowner difficulties with procuring coverage are already causing delays in closing deals, he notes, and huge increases in premiums are putting a damper on the coastal housing market. "No insurance — no construction," he says. "It's a mess." — *Laurie Elden*



Ken Helt, courtesy ASCE

Members of the University of Wisconsin-Madison team paddle their way to first place in the 2006 National Concrete Canoe Competition. The victorious vessel in the American Society of Civil Engineers event — held in June — measured 21 feet long and weighed 162 pounds.

The number of middle-class neighborhoods in each of the nation's 100 largest metropolitan areas has declined since 1970 and the number of poor and rich ones has increased, says a study released in June by the Brookings Institution, a nonprofit research organization in Washington, D.C. The change was most dramatic in Baltimore, Chicago, Los Angeles, and Philadelphia, where the number of middle-class neighborhoods shrank by more than 20 percent.

Dubai-based Emaar Properties, a multinational property-development firm, purchased John Laing Homes for more than \$1 billion in June. Based in Newport, Calif., John Laing Homes is the second largest privately held home builder in the U.S. and has been in business for more than 150 years.

Allegations of kickback schemes continue to dog the title insurance industry. Two firms that were fined \$23.8 million last year in California (see *In the News*, 9/05) came to an agreement in May with New York's attorney general, Eliot Spitzer. Fidelity National Title Group of Jacksonville, Fla., and First American Title Insurance Co. of Santa Ana, Calif. will each pay \$2 million in fines. The companies also agreed to cut premiums by 15 percent on New York properties that sell for less than \$1 million.

Toilet Testing Flushes Out Lax Performers

Let's face it: No one wants to flush twice — and no one wants a callback to replace the ineffective flusher. To avoid installing a dud, check out the seventh and most recent edition of “Maximum Performance (MaP) Testing of Popular Toilet Models.” The study, prepared by Veritec Consulting of Ontario and Koeller & Co. of California, evaluates 247 models, more than double the number of commodes in the edition *JLC* covered last year (see *Backfill*, 9/05).



To simulate waste, researchers used 50-gram logs of soybean paste encased in thin latex membranes — actually nonlubricated condoms. The specimens measured about 4 inches by 7/8 inch and could be used multiple times, saving on preparation and material costs.

Once again, the researchers set the threshold for a successful flush at 250 grams (roughly 8 ounces), a number derived from a British medical study that found this to be the average maximum fecal size. The authors note, however, that the EPA is planning to require high-efficiency toilets to flush at least 350 grams to qualify for the WaterSense label, and that some water utilities require that a toilet flush as much as 500 grams to qualify for their rebate programs.

Fifty-five models flushed the maximum amount tested — an impressive 1,000 grams, or four times what most toilets have to deal with. Toilets from the following brands were represented in this elite group: American Standard, Eljer, Gerber, Kohler, Vitra, Western Pottery, and Zurn. More than half of these units were gravity-flush; the rest were power or pressure-assist units.

The results weren't quite so stellar for some of the other models. Seventeen toilets — all gravity-flush — couldn't purge even the threshold amount. A Komet Deco scored lowest, clearing a paltry 75 grams. And an American Standard Cadet turned in the second-worst performance; it managed only 125 grams.

You can download either the entire study or a handy condensed version that lists the model numbers and performance results of each toilet at www.cuwcc.org/maptesting.lasso. — Laurie Elden

An average of 690 acres a day were converted from agricultural use in Colorado between 1997 and 2002. “Losing Ground,” a report by the advocacy group Environment Colorado, attributes the loss to declining agricultural profitability, the increasing value of farmland, and growing demand for large-lot (two to 40 acres) residential development.

Simpson Strong-Tie opened a new manufacturing plant in Eagan, Minn., in May. The 56,000-square-foot facility includes a warehouse, a contractor training center, and an 8,000-square-foot shop for producing custom parts. The company expects to cut its lead time to three days from the current turnaround of five to eight business days for orders from Iowa, Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin.

A Somerset County, N.J., luxury-home builder was sentenced in March to 14 days in county jail for his run-ins with building inspectors and other township officials. The *Newark Star-Ledger* reports that John Bossany was charged with 12 municipal complaints, ranging from improper behavior to simple assault, and was found guilty on seven counts. His sentence also includes two years' probation, fines, community service, and anger-management counseling.

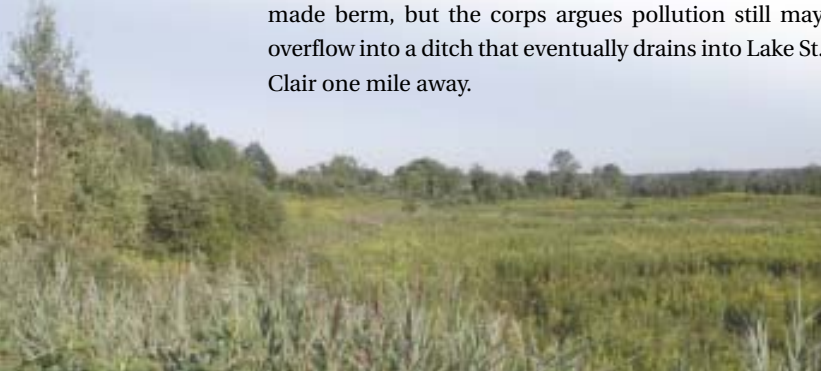
Andersen Corp., a long-time manufacturer of wood windows and doors, has expanded into the vinyl business. In July, the Bayport, Minn.-based company finalized the purchase of Silver Line Building Products, a leading maker of vinyl windows and doors based in New Brunswick, N.J. The terms of the deal were not disclosed.

Muddy Ruling on Clean Water Act

The Supreme Court announced its decision on two wetlands cases on June 19. A 5–4 vote sent the cases back to the lower courts for retrial, but without a majority opinion to guide future interpretation of the Clean Water Act (CWA).

Both cases were brought by Michigan developers — one by John Rapanos and the other by June Carabell — and centered on language in the CWA that defines navigable waters as “the waters of the United States, including the territorial seas.” Historically, the U.S. Army Corps of Engineers has interpreted this broadly to include nonnavigable bodies of water and wetlands that may drain into an interstate waterway.

The Rapanos case hinges on whether the wetlands are part of the drainage system of Lake Huron, which is 11 miles from the nearest of the three properties under review. Carabell’s wetlands are bordered by a man-made berm, but the corps argues pollution still may overflow into a ditch that eventually drains into Lake St. Clair one mile away.



Of the nine justices on the court, four held the opinion that the CWA applies only to waters with a “continuous surface connection” to “a relatively permanent body of water connected to traditional interstate navigable waters.”

Four other justices argued that the CWA was purposely written broadly to allow the corps to carry out the intent of the legislation, which is to regulate pollution of interstate waterways.

Justice Anthony Kennedy cast the deciding vote to send the cases back to the lower courts for additional consideration. Rather than join in either opinion, he maintained a third position — that technical and scientific judgment should be applied on a case-by-case basis to determine whether a particular piece of property has a “significant nexus,” or connection, to a navigable waterway.

The regulatory impact of the ruling is unclear. Carl Pope, executive director of the Sierra Club, issued a statement predicting that the decision would “lead to endless administrative proceedings and legal challenges in the lower courts.” He urged passage of the Clean Water Authority Restoration Act, which he said clarifies the intent of the CWA.

R. Randy Lee, chair of NAHB’s legal affairs committee, said he too expected litigation over the corps’ regulations. He advised builders to “carry a copy of this decision in their pocket.” — *Laurie Elden*

Local impact fees on new development in Mississippi are illegal, ruled the state Supreme Court. The June decision upholds a 2004 circuit court ruling that defines impact fees as taxes, which the state constitution doesn’t authorize cities to levy. The case involved the city of Ocean Springs, but home builders are also pressing the few other Mississippi cities that have impact fee ordinances to refund improperly collected fees.

In June, the EPA launched “WaterSense” (www.epa.gov/watersense), a program designed to encourage water conservation. Just as the department’s Energy Star labels offer consumers a way to identify energy-efficient appliances, the WaterSense label will adorn

products that meet water-efficiency guidelines. But unlike the Energy Star program, which relies on manufacturers to certify their own products, WaterSense will require independent testing to ensure that the products meet EPA standards.

The NAHB has launched a new program aimed at increasing the supply of college graduates with degrees in residential construction management. Because most colleges and universities that now have construction management programs focus exclusively on commercial construction, the Homebuilding Education Leadership Program, or HELP, will offer grants to institutions that agree to set up or enhance similar programs on the residential side.

Remodeling Pet Peeves

What are the biggest beefs contractors and homeowners have with each other during remodeling projects? Payment problems and missed start dates, according to a recent survey sponsored by Kimberly-Clark DIY, a Roswell, Ga., company that sells cleaning products.

For homeowners, the top complaint — selected by more than a third of respondents — was that the contractor didn't begin the job on schedule. In second place was "When the contractor increases the price of the job after it is under way"; it was chosen by about a fifth of those surveyed. Another fifth objected to the mess left behind by the contractor, and a few homeowners — 4 percent — selected "grumpy workers" as their big beef.

Most contractor responses revolved around payment issues. About a quarter of the contractors surveyed selected "Customers who ask you to do work that's not part of the job for no additional money" as their biggest gripe, with "Customers who don't pay in a timely fashion" close behind. Penny-pinching clients who try to whittle down the price after the job is done snagged third place.

"Grumpy clients" wasn't an option, but "Customers who are never happy" was, and about a tenth of respondents chose it as their No. 1 grievance.

So what's a contractor to do? Be on time, use change orders, keep the site clean, and quit being such a grouch.

— Laurie Elden



Home refinancing numbers continue to shrink, measured as a share of all mortgage activity. The Mortgage Bankers Association reported that refinancing made up just 35.3 percent of all mortgage applications in late June, compared with more than 80 percent at the height of the refinance boom in 2003.

California Building Industry Association economist Alan Nevin anticipates that overall housing starts in the state for 2006 will total between 170,000 and 180,000, which represents a decrease of between 15 percent and 20 percent from 2005 levels. Multifamily construction should remain steady; most of the decline is expected to be in single-family starts, especially in San Diego, the San Joaquin Valley, the Bay Area, and the Sacramento region.

Pulte Homes took a beating this spring in the softening real estate market: The nation's largest home builder reported that net new orders for April and May were down 29 percent from the same months in 2005. Richard J. Dugas, Jr., president and CEO of Pulte, attributed the decline to higher interest rates, higher cancellation rates, and a large inventory of available houses.

Residents in the Sunshine State have as many as 20,000 new reasons to invest in solar energy. Under Florida's Solar Energy System Incentives Program — effective July 1, 2006, through June 30, 2010 — residential photovoltaic systems that are 2 kilowatts or higher qualify for a rebate of \$4 per watt to a maximum of \$20,000. Residential solar water heaters qualify for a \$500 rebate, and solar pool heaters for \$100. Rebates are also available for businesses, condominiums, and apartment buildings. The total allocation for the first year of the program is \$2.5 million.

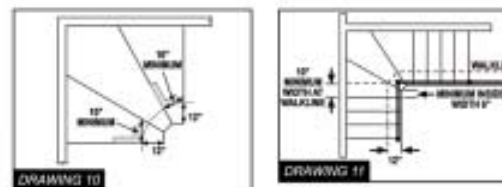
Home Depot is venturing into the convenience-store business, according to the *Atlanta Journal-Constitution*. Two pilot stores in the Nashville area, located in Home Depot parking lots, sell the usual snack foods and gasoline. The unique draw, however, is in contractor-pleasing extras like coffee by the gallon and jumbo car-wash bays that can accommodate the company truck — even with ladders on the racks. If the pilot stores are successful, the company hopes to add 300 more by 2010.

Illustrated Stair-Code Guide

Building codes, unfortunately, don't come with secret decoders that can decipher dense and complicated language. The next best thing may be this illustrated guide to the stair-building portions of the IRC, created by the Stairway Manufacturers' Association (SMA), a nonprofit organization in Westminster, Mass.

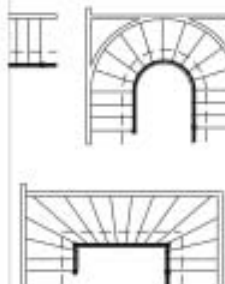
The SMA publication "Visual Interpretation of the International Residential Code 2006 Stair Building Code" covers sections R311.5 (stairways) and R312 (guards). It includes photos and drawings marked with required measurements such as riser height, tread depth, and stairway width. On the last page is an actual-size template for testing whether a rail section meets the R315.2 Type II handrail grip size requirements. The SMA recommends cutting it out and laminating it for use in the field.

You can download the 16-page document for free from www.stairways.org/codes_standards.htm. Illustrated guides to the 2000 and 2003 IRC are also available at the site.



WINDER - A tread with non-parallel edges (as defined in Chapter 2 - IRC, IRC).

ALTERNATE WINDER TREAD DESIGNS



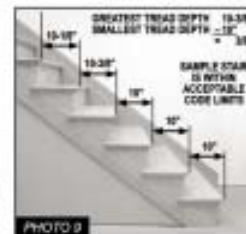
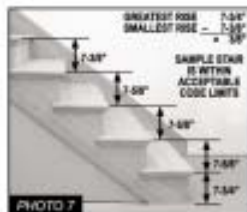
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IRC R311.5.3.1 Riser height.

The maximum riser height shall be 7 1/2 inches (190 mm). The riser shall be measured vertically between nosing edges of adjacent treads. PHOTO 6. The greatest riser height within any flight of stairs shall not exceed the smallest by more than 3/4 inch (19 mm). PHOTO 7.

IRC R311.5.3.2 Tread depth.

The minimum tread depth shall be 11 inches (284 mm). The tread depth shall be measured horizontally between the vertical planes of the forward projection of adjacent treads and at a right angle to the tread's leading edge. PHOTO 8. The greatest tread depth within any flight of stairs shall not exceed the smallest by more than 3/4 inch (19 mm). PHOTO 9.



Winder treads shall have a minimum tread depth of 11 inches (284 mm) measured as shown at a point 12 inches (305 mm) from the side where the treads are narrowest. DRAWING 10. Winder treads shall have a minimum tread depth of 11 inches (284 mm) at any point. DRAWING 11. Within any flight of stairs, the greatest winder tread depth at the 12 inch (305 mm) walk line shall not exceed the smallest by more than 3/4 inch (19 mm).

Stairway Manufacturers' Association Interpretation of IRC 2006 • www.stairways.org • Page No. 1

Moisture Management

Written as a best-practices guide for designers, builders, and owners of wood-frame residences, "Moisture-Resistant Homes" is a new offering from HUD and the Partnership for Advancing Technology in Housing. It provides illustrated design suggestions for water-resistant roofs (primarily composition shingle), walls, and foundations, plus techniques for controlling humidity inside homes.

The 112-page publication also contains maps showing the intensity of wind-driven rain, humidity, condensation, and the like in various regions of the country; its final 20 pages target homeowners, with room-by-room instructions for detecting and correcting moisture problems.

Download the guide for free at www.huduser.org/publications/destech/moisturehomes.html or buy the printed version for \$5 by calling 800/245-2691 and choosing option 1.

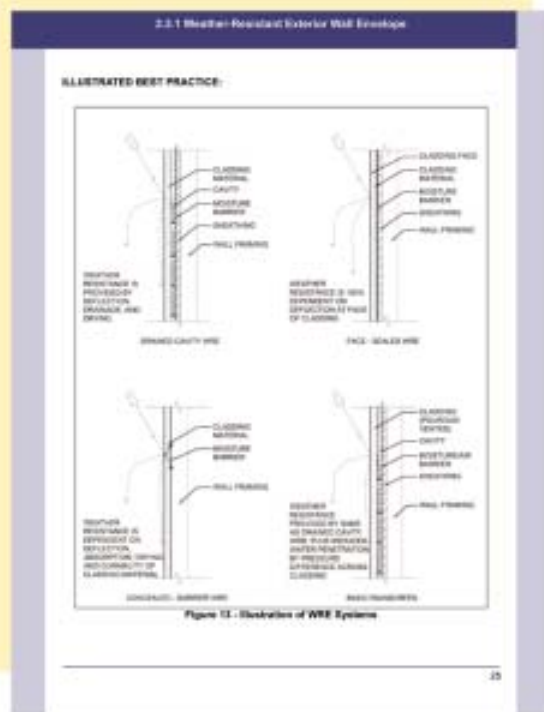


Figure 13 - Illustration of WRE Systems