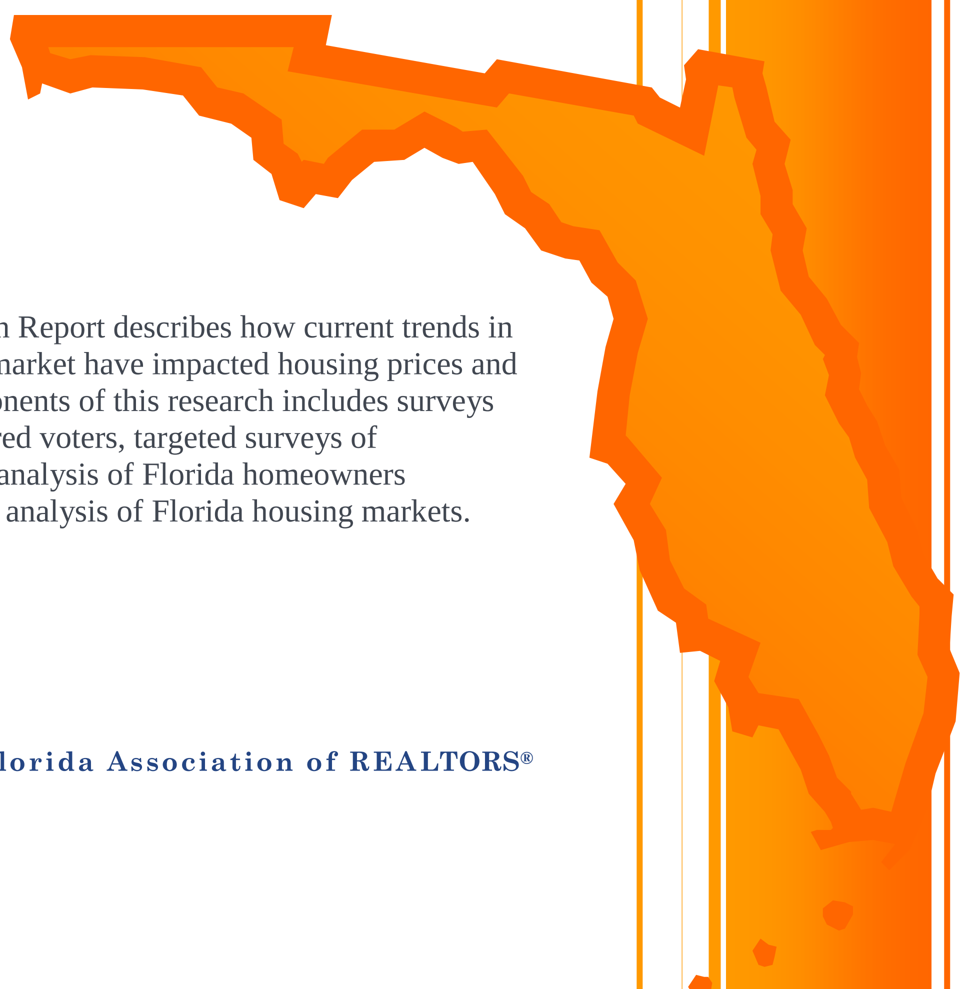
THE AFFORDABILITY AND AVAILABILITY OF HOMEOWNERS INSURANCE IN FLORIDA



Abstract: This NAR Research Report describes how current trends in the homeowner's insurance market have impacted housing prices and values in Florida. The components of this research includes surveys of REALTORS® and registered voters, targeted surveys of REALTORS® in Florida, an analysis of Florida homeowners insurance trends data, and an analysis of Florida housing markets.

Commissioned by the Florida Association of REALTORS®

03/19/2008 – Final

EXECUTIVE SUMMARY

The Affordability and Availability of Homeowners Insurance in Florida

Introduction

The frequency and intensity of natural disasters in recent years has made buying adequate insurance for residential and commercial properties very difficult in some areas of the country, especially Florida. Insurers in Florida are pulling out of local and regional markets, declining to write new policies, canceling existing policies, and increasing premiums and deductibles on existing policies.

Research Approach

The National Association of REALTORS® collected data on insurance and housing markets, and assessed perspectives on the issue from REALTORS® and members of the general public in affected states, including Florida. The components of this comprehensive research project included:

- *Conducted Nationwide Phone Survey of Registered Voters w/oversamples in selected states*
- *Conducted Nationwide E-mail Survey of REALTORS® w/oversamples in selected states*
- *Surveyed REALTORS® as REALTORS® in selected states*
- *Surveyed REALTORS® as Homeowners in selected states*
- *Collected current trend data in selected state insurance markets*
- *Collected current trend data in selected state housing markets*

Conclusions

- **Insurance Data Analysis Conclusions**: Between 2004 and 2005, Florida experienced eight hurricanes, which resulted in massive claims by homeowners, and enormous losses for insurance companies writing policies in the state. This unprecedented claims and loss activity led to significant increases in premiums for all homeowners insurance, a reduction in the number of companies offering homeowners insurance, and rapid growth for the state-owned insurance company, Citizens Property Insurance Corporation (Citizens).

- **Housing Data Analysis Conclusions**: Florida's housing market is the story of two states; before the boom and after the boom. Florida was one of the hottest real estate markets in the country during the recent housing boom. However, once the market dropped, it dropped the hardest in Florida. In the second quarter of 2007, Florida home sales fell by 41.3%, compared to 10.8% nationwide over the same time period.
- **Survey Research Conclusions**: The survey research clearly shows just how unique Florida is when it comes to homeowners insurance issues. The perceptions of Florida REALTORS® and voters is that insurance premiums have risen significantly over the past three years, the price and availability of this insurance has had a real and negative impact on real estate markets in the state, and that the federal government must take on a stronger role to ensure the affordability and availability of insurance in disaster-prone areas.

The Affordability and Availability of Homeowners Insurance in Florida

1. Introduction

The frequency and intensity of natural disasters in recent years has made the acquisition of adequate insurance for residential and commercial properties very difficult in some areas of the country. Insurers are pulling out of selected local and regional markets, declining to write new policies, canceling existing policies, and increasing premiums and deductibles on existing policies.

This situation may pose serious problems for REALTORS® : If prospective purchasers of real property are not able to obtain homeowners insurance, they may not be able to secure a mortgage, which could result in sluggish markets and diminished property values in disaster-prone areas.

To help members and states address this issue, the National Association of REALTORS® engaged in an ambitious research effort to collect data on insurance and housing markets, and assess perspectives on the issue from REALTORS® and members of the general public in affected states. The components of this comprehensive research project include:

- ***Nationwide Phone Survey of Registered Voters w/oversamples in selected states***: Assess registered voters' opinions of the need for, and effectiveness of, alternative public policy approaches to address catastrophes.

- ***Nationwide E-mail Survey of REALTORS® w/oversamples in selected states***: Assess REALTORS®' opinions of the need for, and effectiveness of, alternative public policy approaches to address catastrophes.

- ***Survey REALTORS® as REALTORS® in selected states***: Assess how homeowners insurance problems have impacted REALTORS® .

- ***Survey REALTORS® as Homeowners in selected states***: Assess how homeowners insurance problems have impacted REALTORS® as homeowners.

- ***Collect and analyze current trend data in selected state insurance markets:*** Collect and analyze current trend data in homeowners insurance markets to assess affordability and availability of homeowners insurance.

- ***Collect current trend data in selected state housing markets:*** Collect and analyze current trend data in housing markets to assess the extent to which volatility in the insurance markets have impacted housing prices and values.

Using these research components, this state report will convey a robust story about the availability and affordability of homeowners insurance in Florida.

2. General Information on Homeowners Insurance in the United States

The average expenditure for homeowners insurance was $729 in 2004, according to a February 2007 report by the National Association of Insurance Commissioners. Factors that have led to increases in homeowners premiums in the past few years include rising home values, higher repair and rebuilding costs, and larger than average catastrophe losses in hurricane-prone areas. The Insurance Information Institute (I.I.I.) estimates that the average homeowner's insurance premium increased to $787 in 2005 and then rose by 6% to $835 in 2006. The I.I.I. projects that the average homeowner's insurance expenditure will be $868 in 2007.

AVG PREMIUMS FOR HOMEOWNERS INSURANCE, U.S. 1998-2004

Year	Homeowners(1)	Percent Change
1998	$481	5.7%
1999	488	1.5
2000	508	4.1
2001	536	5.5
2002	593	10.6
2003	668	12.6
2004	729	9.1

(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings, broad named-peril coverage on personal property, and is the most common package written.

Source: National Association of Insurance Commissioners

AVG PREMIUMS FOR HOMEOWNERS INSURANCE IN SELECTED STATES, 2004 (1)

State	Avg. Homeowners Insurance Premium (2)
Texas	$1,362
Louisiana	1,074
Oklahoma	991
Florida	**929**
Mississippi	907
California	835
Kansas	833
New York	785
Connecticut	777
Hawaii	726
New Jersey	641
North Carolina	623
Virginia	616
Pennsylvania	593
Delaware	488

(1) Source: National Association of Insurance Commissioners (NAIC); 2007

(2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings, broad named-peril coverage on personal property, and is the most common package written.

LEADING WRITERS OF HOMEOWNERS INSURANCE IN THE U.S., BY DIRECT PREMIUMS WRITTEN, 2005 (in $000)

Rank	Company/Group	Direct premiums written (1)	Market share (percent)
1	State Farm Mutual Group	$12,835,980	22.2%
2	Allstate Insurance Co. Group	7,054,405	12.2
3	Farmers Insurance Group	3,936,087	6.8
4	Nationwide Group	2,703,828	4.7
5	St. Paul Travelers Companies and Affiliates	2,416,817	4.2
6	United Services Automobile Association Group	2,277,258	3.9
7	Liberty Mutual Group	1,716,041	3.0
8	Combined Federal Ins. Co. and Affiliates (Chubb)	1,611,232	2.8
9	American Family Insurance Group	1,434,809	2.5
10	Hartford Fire Group	943,717	1.6

(1) Before reinsurance transactions, excluding state funds.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database

Causes of Homeowners Insurance Losses

Changes in the percentage contributed by each type of homeowner's loss from one year to another are partially influenced by large fluctuations in the number and severity of weather-related events such as hurricanes and winter storms. There are two ways of looking at losses: by the average number of claims filed per 100 policies (frequency) and by average amount paid for each claim (severity). Incurred homeowners losses increased to $61.3 billion in 2006 from $57.7 billion in 2005, according to Highline Data. Each year about 7% of insured homes have damage that results in a claim, according to the Insurance Services Office (ISO).

Homeowners Insurance Losses by Cause 2001-2005

Cause of Loss	2001	2002	2003	2004	2005
Property damage					
Fire, lightning and debris removal	30.8%	32.6%	31.8%	20.5%	25.1%
Wind and hail	21.7	20.7	25.5	51.2	45.0
Water damage and freezing	22.3	21.5	21.9	15.7	16.8
Theft	4.7	4.5	3.3	2.2	2.6
All other property damage (2)	13.2	12.3	10.7	6.1	6.5
Liability					
Bodily injury and property damage	6.5	7.3	5.8	3.7	3.3
Medical payments and other	0.7	0.8	0.8	0.7	0.7
Credit card and other (3)	0.2	0.3	0.2	0.1	0.1

(1) Data exclude tenants and condominium owners insurance.
(2) Includes vandalism and malicious mischief.
(3) Includes coverage for unauthorized use of fund transfer cards, and forgery and counterfeit currency.

Source: ISO.

3. The Homeowners Insurance Market in Florida

The State of Florida is unique in that it is the most hurricane-prone state in the nation. Florida experienced eight hurricanes between 2004 and 2005 which caused historic levels of damage (almost $40 billion) to residential property resulting in massive claims by homeowners and enormous losses for the companies writing policies in the State. These developments led to significant increases in premiums for all homeowners insurance, a reduction in the number of companies offering homeowners insurance, and the rapidly growing market share of the state owned insurance company, Citizens Property Insurance Corporation (Citizens).

VALUE OF INSURED COASTAL PROPERTIES VULNERABLE TO HURRICANES BY STATE, 2004 (1)
($ billions)

State	Coastal	Total exposure (2)	Coastal as a percent of total
Florida	$1,937.4	$2,443.5	79%
New York	1,901.6	3,123.6	61
Texas	740.0	2,895.3	26
Massachusetts	662.4	1,223.0	54
New Jersey	505.8	1,504.8	34
Connecticut	404.9	641.3	63
Louisiana	209.3	551.7	38
South Carolina	148.8	581.2	26
Virginia	129.7	1,140.2	11
Maine	117.2	202.4	58
North Carolina	105.3	1,189.3	9
Alabama	75.9	631.3	12
Georgia	73.0	1,235.7	6
Delaware	46.4	140.1	33
New Hampshire	45.6	196.0	23
Mississippi	44.7	331.4	13
Rhode Island	43.8	156.6	28
Maryland	12.1	853.6	1
Coastal states	**$6,863.0**	**$19,041.1**	**36%**

(1) Includes residential and commercial properties. Ranked by value of insured coastal property.
(2) Total exposure is an estimate of the actual total value of all property in the state that is insured or can be insured, including the full replacement value of structures and their contents and the time value of business interruption coverage.

Note: Latest data available.

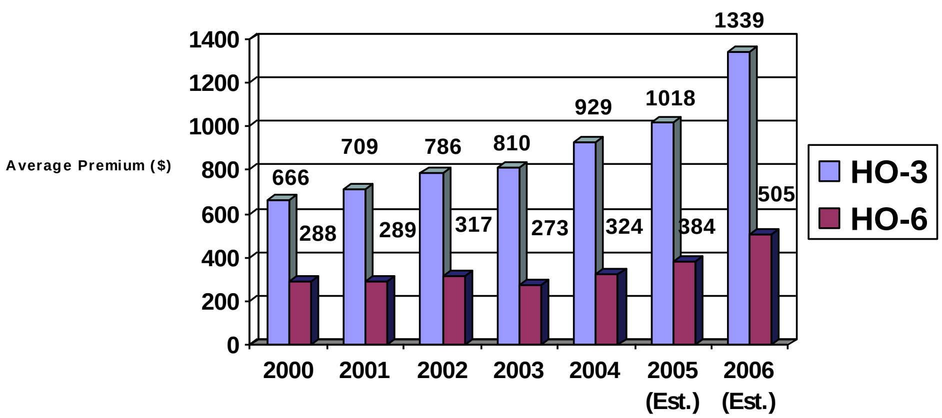
Source: AIR Worldwide.

4. Types of Policies: Coverage and Premiums

For our analysis on policy coverage and premiums, we used HO-3, the most common homeowner's policy, and HO-6, the condominium/co-op policy. The HO-3 policy is the broadest individual homeowner policy. It covers all perils except those specifically excluded by the policy and has been the consistent choice for many years of more than 75% of all Florida homeowners. The HO-6 policy is the standard policy for condominium and co-op owners and covers the content of the owner's unit and any structural parts of the building for which unit owners are responsible.

Chart 1 covers the average premium for HO-3[1] and HO-6[2] homeowner's insurance policies for the years 2000-2006. Chart 2 illustrates the percent change in average premiums for homeowners insurance policy types HO-3 and HO-6; from 2000-2006. Chart 3 illustrates the aggregate premiums for homeowner's insurance policies 2000-2006. Chart 4 and 5 break down coverage into specific dollar ranges. The charts reflect different segments of the housing market in Florida for HO-3 and HO-6 policies from 2000 to 2006.

Chart 1 -- Average Premiums for Homeowners Insurance Policy Types HO-3 and HO-6: 2000-2006 Florida

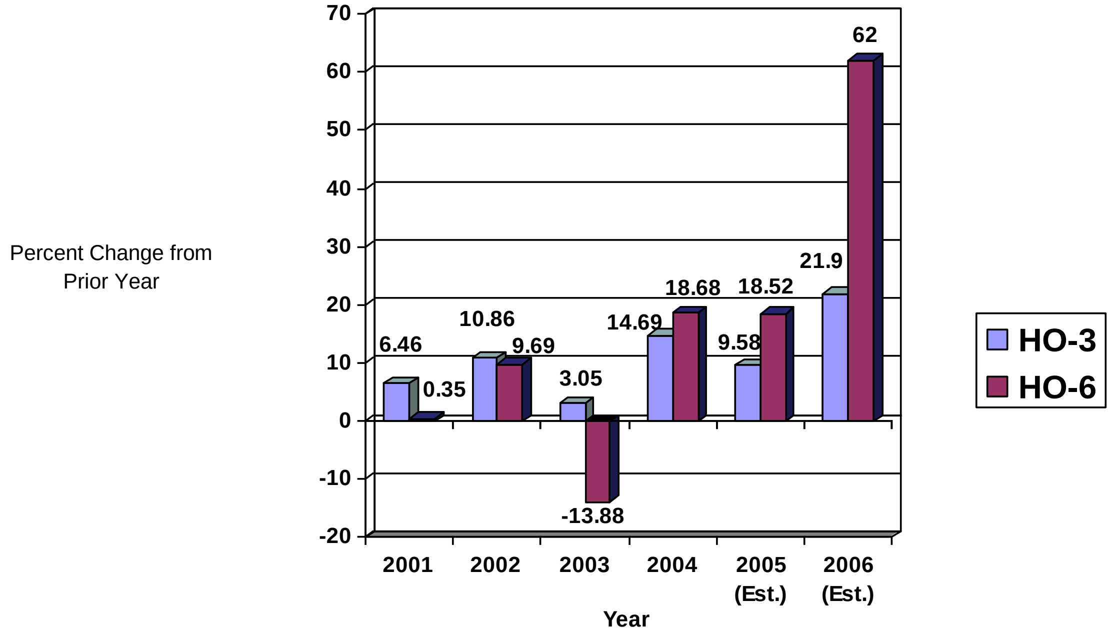


Source: National Association of Insurance Commissioners Homeowners Reports: 2000-2004, and A.M. Best 2005-2006.

[1] HO-3: Provides "all-risks" coverage on buildings, broad named-peril coverage on personal property; most common package written.

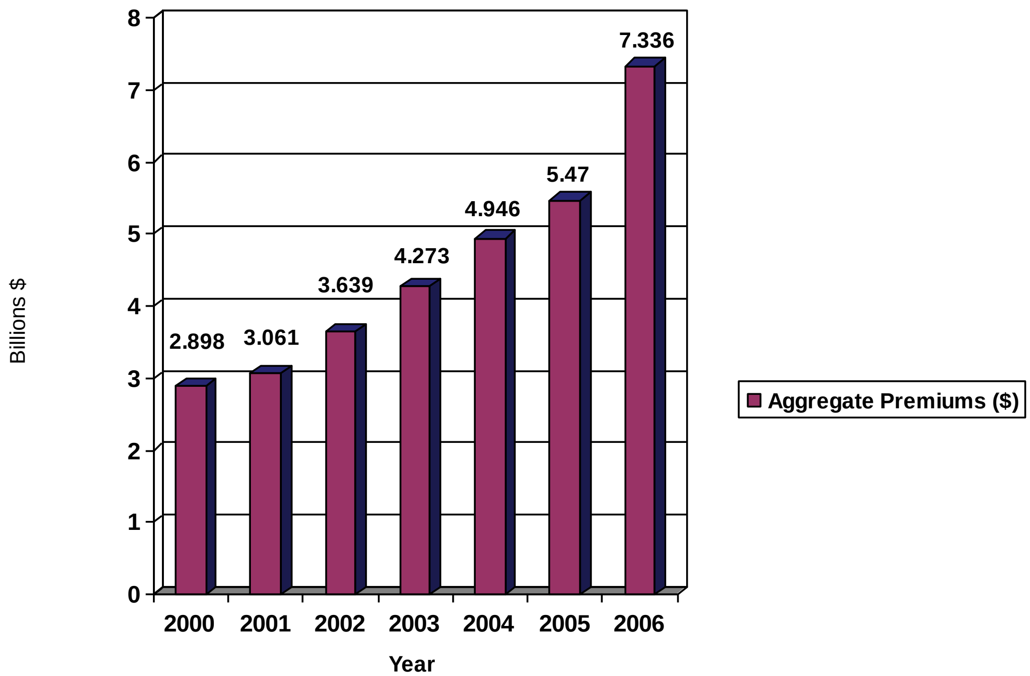
[2] HO-6 (Condo/Co-Op Insurance): Broad named-perils coverage for personal property of condominium or cooperative unit owners, as well as certain building items in which the unit owner may have an insurable interest.

Chart 2 -- Annual Percent Change in Average Premiums for Homeowners Insurance Policy Types HO-3 and HO-6: 2000-2006 Florida



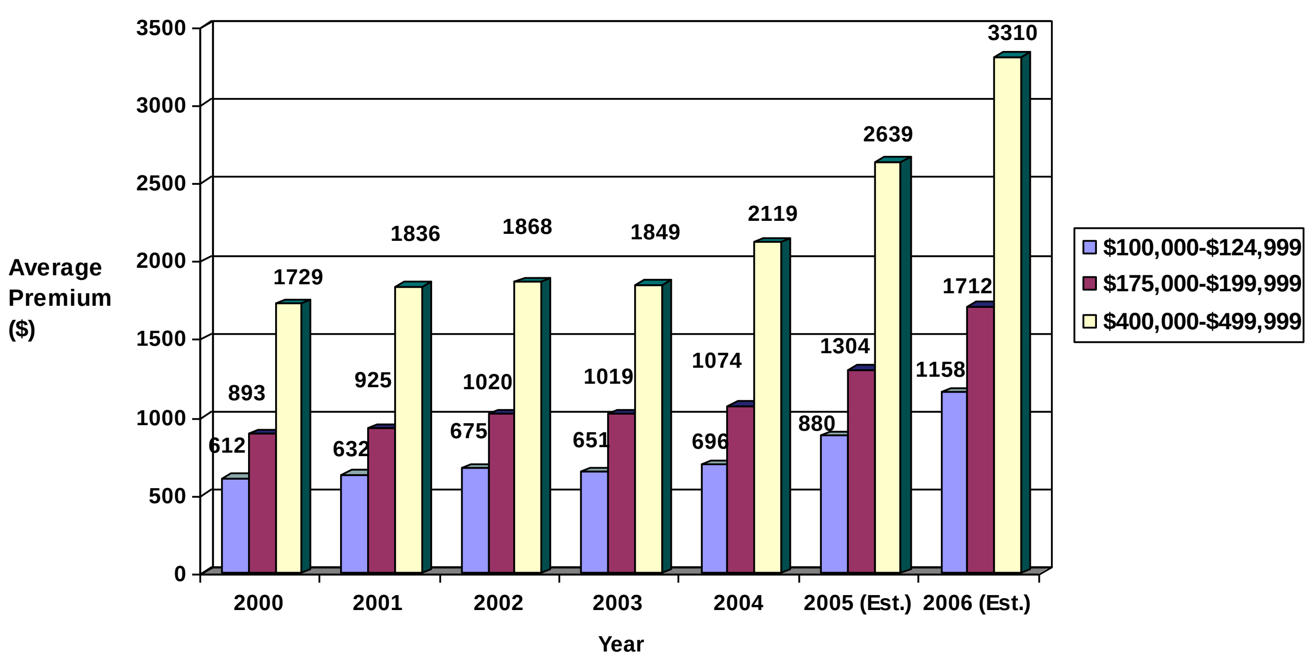
Source: National Association of Insurance Commissioners Homeowners Reports: 2000-2004, and A.M. Best data 2005-2006. Note: HO-3 Policy Type is most common homeowers insurance package written; HO-6 is for Condo/Co-op.

Chart 3 -- Aggregate Premiums for Homeowners Insurance Policies: 2000-2006 Florida



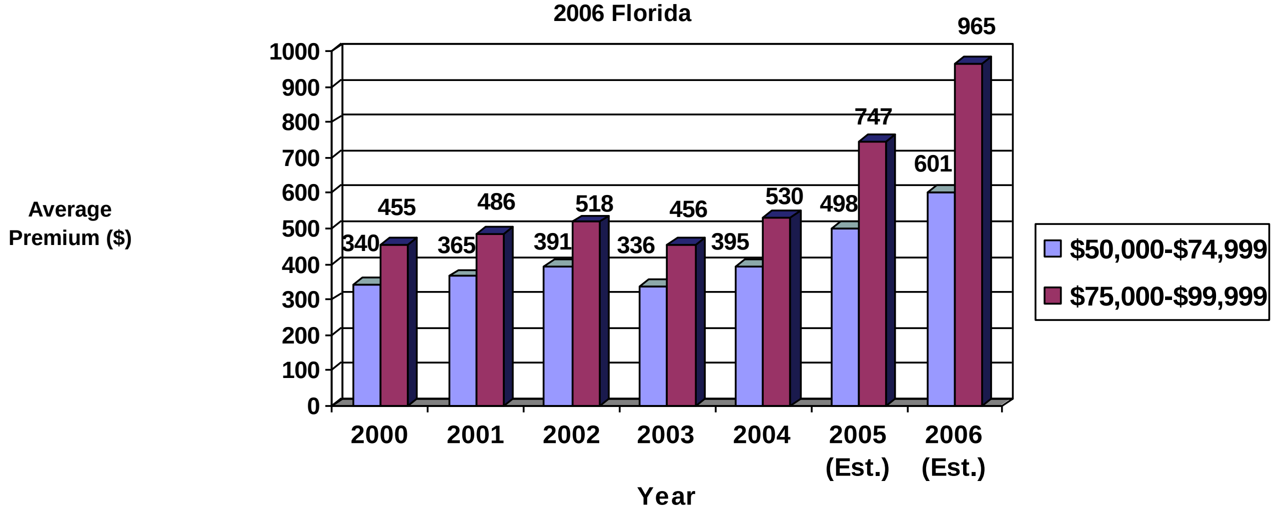
Source: National Association of Insurance Commissioners Homeowners Reports: 2000-2004, and A.M. Best data 2005-2006.

Chart 4 - HO-3 Policy Type Premiums for Selected Homeowners Insurance Ranges: 2000-2006 Florida



Source: National Association of Insurance Commissioners Homeowners Reports: 2000-2004, and A.M. Best data 2005-2006.
Note: HO-3 Policy Type is most common homeowers insurance package written.

Chart 5 -- HO-6 Policy Type Premiums for Selected Insurance Ranges: 2000-2006 Florida



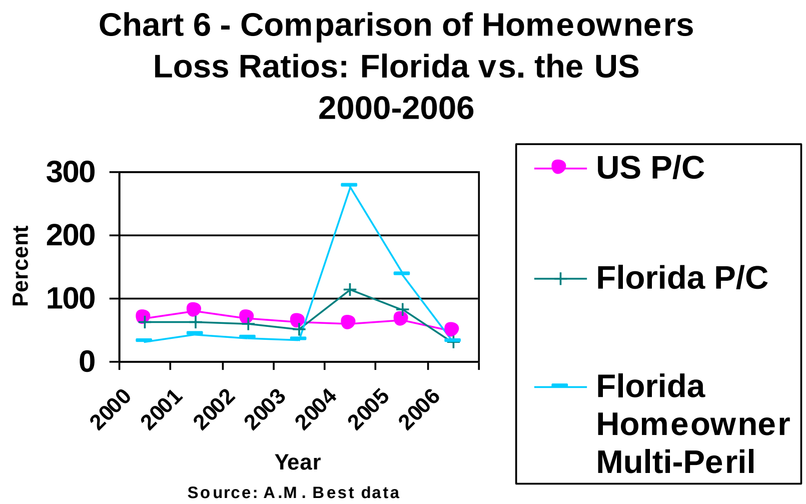
Source: National Association of Insurance Commissioners Homeowners Reports: 2000-2004, and A.M. Best data 2005-2006. Note: HO-6 Policy Type is Condo/Co-op Insurance.

5. Claims and Loss Rates 2000-2006

The loss ratio is generally defined as the ratio of the annual claims paid by an insurance company to the premiums received and shows what percentage of payouts are being settled with policy holders. The lower the loss ratio, the better for the insurance company; Higher loss ratios often indicate that an insurance company needs better risk management policies to guard against future possible insurance payouts.

The magnitude of the losses due to claims during 2004 and 2005 is reflected in the loss ratio data in Chart 6. The incurred loss ratio[3] was 278% in 2004 and dropped to 136% in 2005 but returned to a more normal loss ratio of 31.8% in 2006. The significant deterioration in the loss ratios experienced by insurance companies writing homeowners insurance in Florida in 2004 and 2005 was directly related to the magnitude of the hurricane-related losses experienced in those years.

[3] Incurred Loss Ratio: Proportion of losses incurred to premiums earned. This ratio indicates the amount of a premium dollar that is being consumed by losses.



6. Leading Insurance Companies in Florida

Florida is the third largest market in terms of premiums paid for homeowners insurance. The top 10 companies account for almost two-thirds of the market while the individual market share for carriers outside the top 10 writers amount to about 2% or less.

TOP 10 INSURERS / MARKET SHARE AND LOSS RATIO - 2006

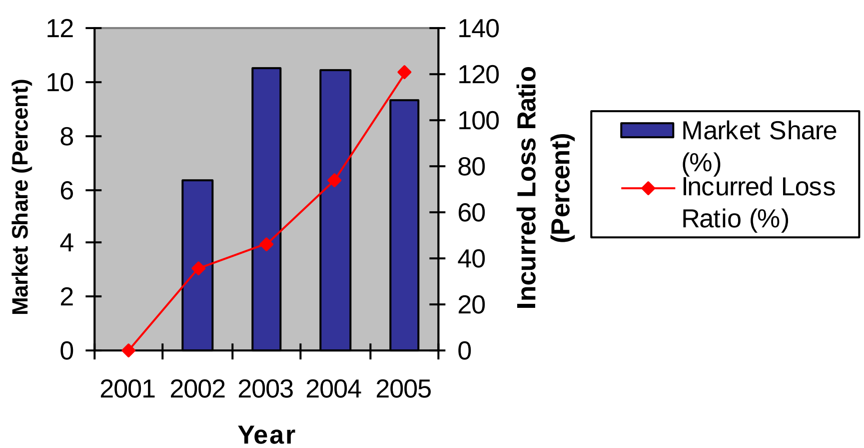
INSURERS	**DIRECT PREMIUMS WRITTEN (in $000s)**	**STATE MARKET SHARE**	**ADJUSTED LOSS RATIO**
State Farm	$1,444,281	19.7%	36.8
Citizens	$1,298,388	17.7	24.5
Allstate	$524,703	7.2%	43.6
Tower Hill	$2342,029	4.7	35.6
Universal P&C	$338,420	4.6%	27.9

USAA	$316,537	4.3%	16.2
Nationwide Group	$297,439	4.1%	2.4
Liberty Mutual	$221,726	3.0%	61.4
American Strategic	$216,582	3.0%	21.5
Universal Insurance Group of Puerto Rico	$186,151	2.5%	21.4

Source: A.M. Best data

While the above chart shows State Farm was still the market leader in terms of premiums through year-end 2005, recent reports reveal that Citizens has become the largest residential insurance company in Florida. From 2003 to 2006, the number of Citizens policies increased from 820,255 to 1,298,922 respectively.

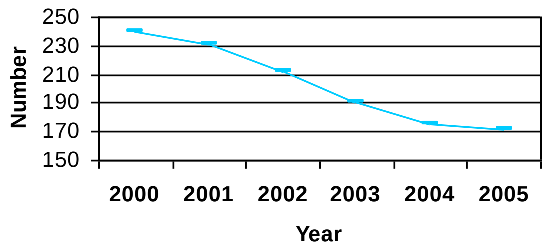
Chart 7 -- Citizens Market Share and Incurred Losses for Homeowners Multiple Peril Insurance Policies: 2001-2005 Florida



Source: A. M. Best data

Regarding the total number of companies writing homeowners insurance in Florida there were almost 30% fewer companies writing policies in 2005 than there were in 2000. In 2000, there were 240 companies in Florida writing such policies compared to only 171 in 2005 (Chart 8).

Chart 8 -- Number of Companies with Premium Activity in Homeowners Multi-Peril Insurance in Florida
2000-2005



Source: NAIC Data Warehouse

7. Availability of Homeowners Insurance

Measuring availability is fairly subjective and more difficult to measure than insurance premiums. Availability can relate to the quality of the options available to a homeowner rather than whether the homeowner can obtain homeowners insurance at all. One availability measure frequently used is the proportion of homeowners insurance policies bought from state-sponsored “insurer of last resort” plans. Greater volume in such plans suggests less coverage availability in the voluntary private market.

Following the 2004-2005 hurricane seasons, all areas of Florida were affected. However, premiums soared for property risks for homeowners located on the coastline. Due to the lack of availability of policies from the private insurance market, many policyholders found themselves with policies from Citizens which was originally designed to be a supplement to private insurance capacity – not a direct competitor with the private market. Originally, Citizens policies were mandated to have insurance rates higher than the 20 largest insurance carriers in Florida. However, the Florida legislature recently changed the law to permit Citizens to compete on price with private insurers.

The Florida legislature has adopted a series of measures intended to reduce the cost of homeowners insurance in the state, including the provision referenced above. Among the other changes enacted was an expansion of the Florida Hurricane Catastrophe

Fund (FHCF), established in 1993 following Hurricane Andrew. All insurers issuing homeowners policies are required to purchase reinsurance through FHCF.

The legislature created a temporary increase in the coverage for the 2007-2009 hurricane seasons. All savings realized by purchasing this reinsurance must be passed along in the form of reduced premiums. The Florida Office of Insurance Regulation suggests that the statewide average rate of savings on overall premium is 24.3%. The rate reduction for homeowners is 23.9% and the rate for condominium units is 25%. The rate reductions take effect June 1. The new policy may be having a positive effect for some insurers. The Bradenton Herald reported April 21 that four new homeowners insurers have entered the Florida market (and three more have applications pending with the OIR) since the new reform law was enacted earlier this year to reduce premiums and encourage insurers to write new policies.[4]

Other steps taken included freezing Citizens' home insurance rates at 2006 through 2008 levels and various other changes to the way Citizens operates. The legislature also took steps to encourage foreign licensed reinsurers to enter the Florida market.[5]

The Florida Reinsurance Market

According to the recent Milliman Report, commissioned by The Property Casualty Insurers Association, the new Florida legislation "will decrease homeowner's rates with the justification that the FHCF reinsurance is less expensive than commercial reinsurance." However, Milliman/PCI notes, "we do not believe the rate decreases will be as large as those contained in the OIR Presumed Factor Report; in our analysis we assume that the statewide decrease for dwelling policies is 12%, or about half of the 23.9% decrease projected by OIR."[i]

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[4] P/C Committee report (p. 47) <http://www.myfloridainsurancereform.com/docs/finalreport.pdf>. SBA at http://www.sbafla.com/fhcf/about.as. http://www.myfloridahouse.gov/FileStores/Web/HouseContent/Approved/Announcements/Uploads/Documents/ins/Summaryofconferencereport.pdf. http://www.floir.com/PresumedFactor/index.htm. Brian Neill, "Insurance Market on the Mend," The Bradenton Herald. Apr. 21, 2007.

[5] Summary of 2007 Legislation attached.

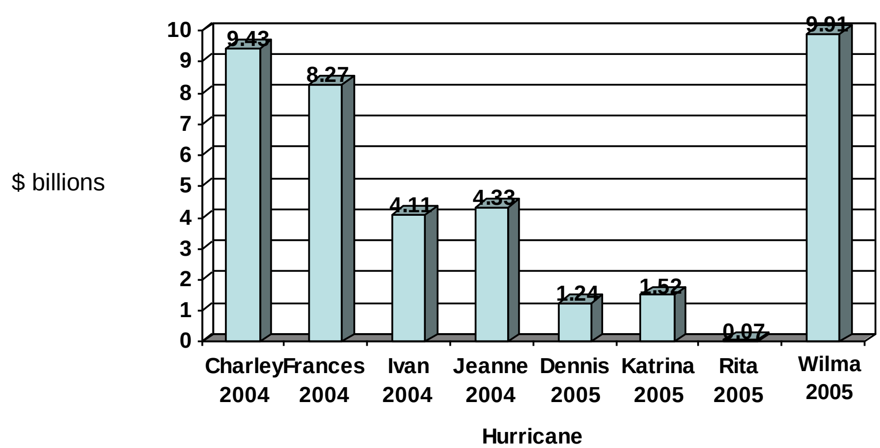
As such, it is reasonable to expect the current market for reinsurance to be similar to the market outlined in former-Governor Bush's "Property and Casualty Insurance Reform Committee," which he issued in November 2006.[ii] The report said the OIR requires insurers covering property risks to have adequate reinsurance to ensure an insurer can withstand wind losses. After the 2004-2005 hurricane seasons, reinsurers covering property risks in Florida increased their price for coverage. Florida property insurers found significant reinsurance rate increases which were factored into their rate filings with the OIR, resulting in requests for rate increases to the insurance buying public.

The losses incurred after the two years of eight hurricanes have reduced the reinsurance capacity in the Florida property market and related factors created an overriding concern by the reinsurance market about exposure from Florida risks. The report goes on to say, "At the present time [fall 2006], it appears reinsurance capacity for Florida property risk is nearly tapped out. This in turn severely limits the capacity of direct writers of property insurance."

8. Financial Health of the Companies

The eight hurricanes in 2004 and 2005 which caused almost $40 billion in losses across 2.8 million claims resulted in a series of insurance company insolvencies in Florida. (Chart 9)

Chart 9 -- Eight Hurricanes and Gross Losses in Florida: 2004-2005



Source: Senate Banking & Insurance

Recent Florida Homeowners Insurer Insolvencies 2006 - 2007

Florida experienced four insurance company liquidations in 2006.

- Three companies, collectively known as Poe insurance companies:

> *Atlantic Preferred Insurance Company (APIC): APIC's insolvency generated 21,533 claims with an expected loss and expense claim payout of $240 million.*
>
> *Florida Preferred Property Insurance Company (FPPIC): FPPIC's insolvency resulted in 14,563 claims with an expected loss and expense claim payout of $490 million.*
>
> *Southern Family Insurance Company (SFIC): A majority of SFIC's business was condominium association policies. The number of loss claims received as of December 31, 2006 was 4,774 with an expected loss and expense claim payout of $940 million.*

According to press accounts, Poe suffered more than $100 million in losses by the end of the 2004 hurricane season. In addition, Poe had moved in to offer property coverage in regions of Florida where top insurers -- Allstate, Nationwide, and State Farm -- had pulled back from, perhaps trying to "grow out of their financial woes." Following its collapse, all of Poe's policies were assumed by the Citizens program.[iii]

- Vesta Fire and Casualty, produced 91 claims related to automobile insurance.

- Vanguard Fire and Casualty Company - First insolvent company of 2007; liquidated in March. Vanguard had 57,000 property/casualty policyholders. Approximately $6 million in claims have been paid out since January 2007, but the company does not have sufficient cash and reserves to pay all of its remaining claims.[iv]

Many of the policies issued by these companies have been transferred to Citizens. Any unpaid claims will be covered up to $500,000 by the Florida Insurance Guaranty

Association (FIGA). FIGA is funded through assessments on insurance companies and is authorized to issue bonds in the event that its liabilities exceed maximum annual assessments. The Florida legislature gave FIGA bonding authority after Hurricane Andrew resulted in 12 insolvencies that depleted FIGA's standard assessment authority.

The other nine major private home insurers in Florida are in reasonable financial health. Each of these companies has taken action to reduce their exposure to the Florida market.

SUMMARY OF RECENT STEPS TAKEN BY TOP HOMEOWNERS INSURERS TO REDUCE

EXPOSURE IN FLORIDA MARKET

RANK	INSURER		MARKET ACTIONS
1	Citizens		"Insurer of last resort." New legislation passed in January allows Citizens to compete with private insurers.
2	State Farm		State Farm has requested substantial rate increases on all its homeowner's policies. As a result of provisions in the 2007 legislation, State Farm filed in March 2007 for an average homeowners policy discount ("presumed factor") of 7.1%. All homeowner insurers must lower their rates based on the savings they receive from purchasing cheaper reinsurance from the Florida Hurricane Catastrophe Fund.[v]
3	Allstate		Allstate intends not to renew 225,000 homeowner's insurance customers this year.
4	Tower Hill		Tower Hill has announced it will stop writing new policies in 16 coastal counties. Tower Hill officials said it was prompted to stop offering new insurance following an emergency order issued in January 2007 by Gov. Crest that placed a 90-day moratorium on all rate increases and non-renewals.[vi]
5	Nationwide		In April 2007, an arbitration panel ruled in favor of Nationwide, granting it a 54% rate increase.

6	USAA		In December 2006, USAA was approved for an average statewide rate increase of 16.3% for homeowners insurance. The rate change became effective in February 2007.[vii]
7	Liberty Mutual		Liberty Mutual announced last year that it would reduce its Florida's homeowner's policies. Approximately 6,000 policies -- homes primarily located within five miles of the coast -- out of the 120,000 homes the company insured would not be renewed.[viii]
8	St. Paul Travelers		First Floridian Auto & Home, a subsidiary of St. Paul Travelers Co., indicated this Spring that it intended not to renew an undisclosed percentage of its 97,000 homeowners policies[ix]
9	Chubb		Chubb is bucking the trend of insurers by offering enhanced flood coverage policies for its wealthier customers who live along the coasts of Florida, New York and other states.[x]
10	AIG		AIG Florida subsidiary New Hampshire Insurance Co. has sought substantial statewide homeowner's insurance rate increases.[xi]

Source: Rankings via A.M. Best Company

As the insurer of last resort and now the largest homeowner's insurance writer in Florida, Citizens has enormous exposure which is the exclusive responsibility of the State of Florida and its taxpayers. Unlike the large national companies that have the ability to spread their risk and the private reinsurance industry that specializes in spreading the risk, Citizens' risk is highly concentrated. A repeat of the 2004-2005 hurricane seasons would result in billions of dollars of loss to Citizens and by any standard would place the financial health of the company in jeopardy.

9. The Housing Market in Florida

Background

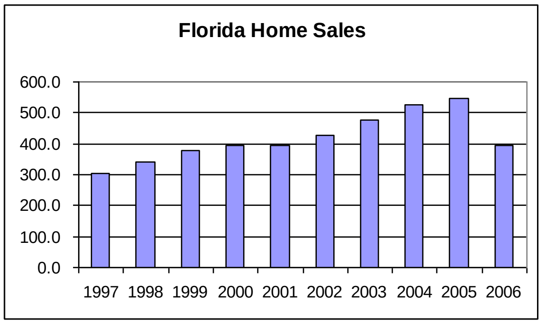
In this section of the analysis, we compare housing market conditions in both Florida statewide and in Florida's coastal markets. We note that at the time of this analysis, there was no timely data available for the coastal markets in Florida at the zip code level. Therefore, the best data available for analyzing coastal markets is at the Metropolitan Statistical Area (MSA) level. We acknowledge that the MSA data includes both coastal and non-coastal home sales, and therefore it is not a pure estimate of coastal activity.

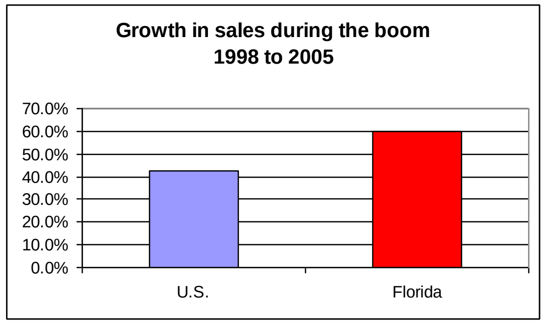
We identify seven coastal markets in Florida: Miami-Fort Lauderdale-Miami Beach (shown on chart as "Miami"), Fort Myers, Palm Bay-Melbourne-Titusville ("Melbourne"), Deltona-Daytona Beach-Ormond Beach ("Daytona Beach"), Tampa-St. Petersburg-Clearwater ("Tampa"), Pensacola, Ferry Pass-Brent ("Pensacola"), and Jacksonville. We further note that the figures contained here are unpublished and based on NAR's raw sample of Multiple Listing Services. Therefore, although we attempt to provide reliable, useful information, we cannot guarantee that all of the information is accurate.

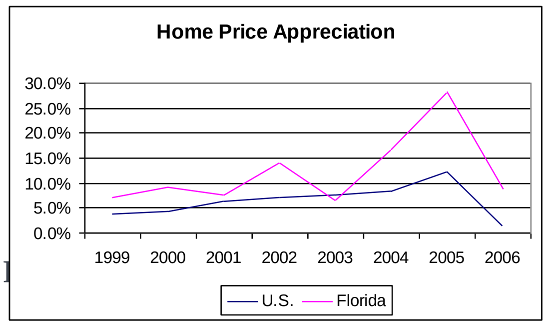
Florida Housing Market

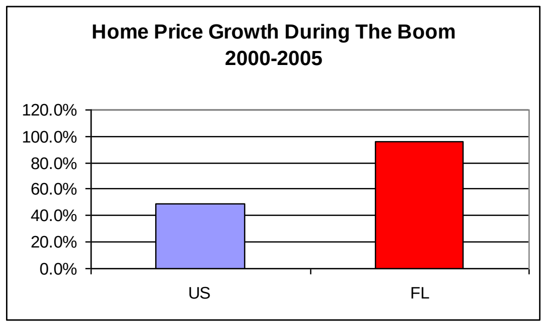
Florida was one of the hottest real estate markets in the country during the recent housing boom. In fact, Florida rapid growth in housing started two years before the rest of the nation. Florida's boom began in 1998, while the rest country started in 2000. The reason for the head-start in Florida was due primarily to two factors. First, an influx of wealthy baby-boomers in their prime home-buying years began moving into the area to enjoy retirement. Second, job creation was, and still is, very strong Florida, which has resulted in an increase in homeownership.

From 1998 to 2005, the Florida's housing market grew by 60%. This is significantly faster than the nation which rose 42% over the same time period. Similar to the rest of the county, the housing market in Florida peaked in 2005. That year, there were 547,100 existing homes sold, move than 250,000 more homes sold than in 1998. A record level of demand wiped out existing inventories, and as a result, home prices surged. From 2000 to 2005, the median price of a home in Florida rose from $119,000 to $233,700, an increase of 96%. This was significantly higher than the 49% growth in prices that was experienced nationally, making Florida easily one of fastest home price appreciating states in the country.

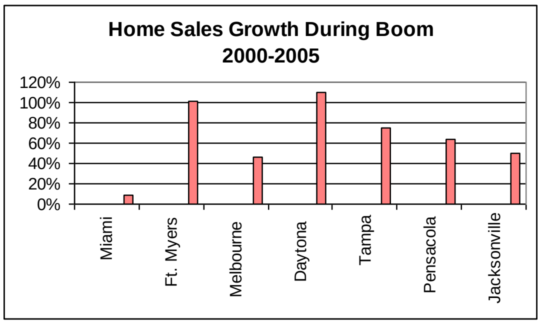


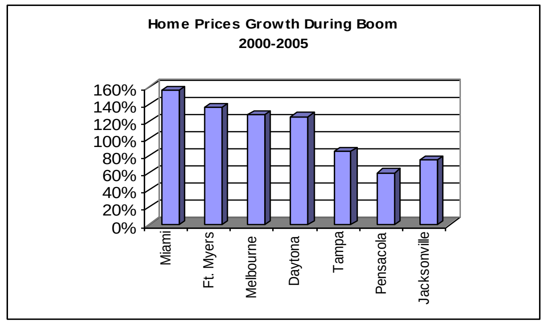






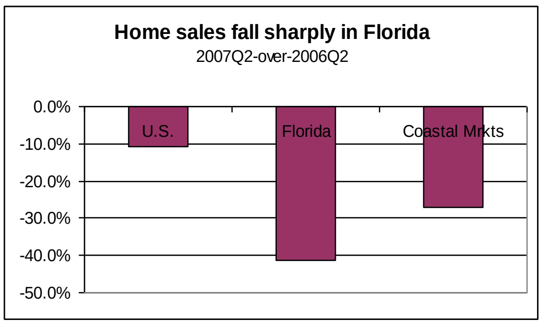
The coastal markets in Florida also performed exceedingly well during the housing boom. Home sales on the coast rose at average growth rate of 65%, which was 5% faster than the state as a whole. While home sales in certain coastal markets like Miami posted more moderate growth, others like Fort Myers and Daytona Beach soared, rising over 100% from 2000 to 2005. Strong demand and limited supply caused home prices in the coastal markets to skyrocket. Overall, the coastal markets saw prices grow at an average growth rate of 109% during the boom, which was better than Florida statewide (96%) and more than double the rate of growth nationwide (49%). Miami led the way with prices rising by 156%, followed by Ft. Myers +136%, Melbourne +128%, and Daytona Beach +126%.

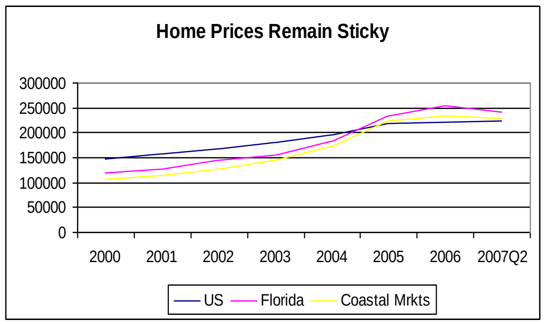




Housing Slump

The turning point in the national housing market came in October 2005. The combination of rising mortgage rates and higher home prices squeezed out many potential buyers. The effects of the downturn were felt in nearly every market of the county, with only a few rare exceptions posting increases in 2006. In Florida, the housing market fell more steeply than the rest of the country. In 2007Q2, statewide home sales sank by 41.3% compared to a year-ago. This drop was significantly worse than the U.S. which fell 10.8% over the same time period. The coastal markets in Florida did not fare much better, with home sales falling 27% in 2007Q2. Fort Myers, Daytona Beach, Tampa, Pensacola, and Jacksonville suffered the biggest declines (declining by over 20%) while Miami and Melbourne held up better than the rest (declining less than 10%).





Despite the major run-up in Florida during the real estate boom, home prices remain sticky. Nationally, home prices began decelerating in April 2006, and by August, they officially turned negative and began falling compared to a year-earlier. In 2006, national home prices rose 1.0% (albeit, they were negative from August through the remainder of the year). In Florida, however, home prices stayed stubbornly high in 2006. Despite the sharp drop in home sales and rising inventory, home prices actually rose 8.7%. However, 2007 has been a different story for Florida. In the second quarter of 2007, home prices in Florida fell 6.1%, a significantly larger drop than the 1.5% decline experienced nationally. Similarly, the coastal markets in Florida are now experiencing price declines which averaged 4.1% in the second quarter.

10. Perceptions of Homeowners Insurance in Florida

This research project conducted several surveys to "ground-truth" or validate the results of the extensive data collection and analysis activities on insurance and housing markets in Florida. The purpose of these surveys was to analyze perceptions of REALTORS® and registered voters regarding the affordability and availability of homeowners insurance in selected states. These surveys included:

Nationwide Phone Survey of Registered Voters w/oversamples in Florida: Assess registered voters' opinions of the need for, and effectiveness of, alternative public policy approaches to address catastrophes.

Nationwide E-mail Survey of REALTORS® w/oversamples in Florida: Assess REALTORS' opinions of the need for, and effectiveness of, alternative public policy approaches to address catastrophes.

Survey of Florida REALTORS®' experiences with their clients: Assess how homeowners insurance problems have impacted REALTORS®.

Survey of Florida REALTORS® as Homeowners in Florida: Assess how homeowners insurance problems have impacted REALTORS® as homeowners.

11. Analysis of Survey Data

Respondents to the nationwide e-mail survey of REALTORS® addressed a number of questions regarding the affordability and availability of homeowners insurance. The State of Florida was oversampled to get a sense of the perceptions of members in these states.

The following chart summarizes the key results of these nationwide REALTOR® and registered voter surveys.

FL Homeowners Insurance Perceptions Summary

REALTORS®

Question		**Florida Response**		**Nationwide Response**
Do homeowners have a choice when choosing homeowners insurance?		13% - YES		74% - YES
Have homeowners insurance premiums gone up?		99% - Significantly UP		40% - Significantly UP
Has the cost/ availability of homeowners insurance had an impact on real estate markets?		81% - Significant impact		10% - significant impact

Registered Voters

Question		**Florida Response**		**Nationwide Response**
Do homeowners have a choice when choosing homeowners insurance?		21% - YES		70% - YES
Have homeowners insurance premiums gone up?		82% - Significantly UP		47% - Significantly UP
How do you feel about your homeowners insurance company?		49% -Favorable 37% - Unfavorable		76% -Favorable 7% - Unfavorable

Both the national survey of REALTORS® and the national survey of registered voters demonstrate the huge differences between those who live and work in Florida and the rest of the country. Florida REALTORS® are decidedly negative in their perceptions of the homeowners insurance market and its impact on housing markets. These perceptions are diametrically opposite of the perceptions of REALTORS® nationwide on these same issues.

These REALTOR® perceptions are mirrored by registered voters in Florida. When asked to rate a number of issues that homeowners may be concerned about when they imagine buying a home, the biggest concern for Florida's registered voters is the cost of a homeowners insurance policy. Voters in Florida are extremely frustrated with the lack of available choices in homeowners insurance, and a wide majority of respondents have seen their premiums go up in recent years.

Florida REALTORS® and voters have thought a lot about solutions to the crisis. Both groups would like the country to be better prepared by strengthening local land use policies and building codes, and provide financial incentives for property owners to mitigate their home to withstand future catastrophes. In addition, both groups believe there is a broader role for the federal government to help with disasters, such as improving the capacity of first responders and help to pay for the costs of rebuilding.

Results of Homeowners Insurance Survey of Florida REALTORS®

A sample of Florida REALTORS® was polled about their experiences with clients and their own experiences as homeowners relating to the availability and affordability of homeowners insurance. The goal of this survey is to gauge, from a homeowner's perspective, the impact of recent changes in the market for homeowners insurance stemming from a number of weather and natural disaster events including a particularly active 2005 hurricane season.

REALTORS® Experience as Homeowners

A far higher percentage of REALTORS® are homeowner compared with the population at-large and because of their role in the buying and selling of homes are aware, possibly to a greater degree than many homeowners, of recent changes in the market for homeowners insurance.

Among those REALTORS® surveyed, 99 percent were homeowners. Nearly all REALTOR®-homeowners (97 percent) reported that their primary residence was covered by insurance, either through Florida's state sponsored insurance program (18 percent), Citizens, or through a private carrier (79 percent). Nearly half of REALTOR®–homeowners (48 percent) had the same carrier for more than four years.

The median annual insurance premium reported by this group of homeowners is $2,160 in 2007. Eleven percent reported that their annual insurance premium was less than $1,000, while a slightly greater percentage (18 percent) reported that their annual premium exceeded $4,000. Among REALTOR®-homeowners who owned the same property in 2004, the median annual premium was approximately $1,070. Forty-eight percent reported that their annual premium was less than $1,000 while just 2 percent noted that their premium exceeded $4,000 in 2004.

While premiums are an important component of the overall cost of insurance, the deductible also affects the potential out-of-pocket costs that homeowners may incur. The median deductible for REALTOR®-homeowners is $1,840 in 2007. Twenty-three percent of REALTOR®-homeowners reported that their deductible was less than $1,000 with an additional 32 percent noting that their deductible was in the range of $1,001 to $2,000. Among those homeowners who owned the same property in 2004, the median deductible was $850. Sixty-five percent indicated that their deductible was less than $1,000 while 20 percent reported a deductible of $1,001 to $2,000.

Vacation homes may be located in areas more often prone to weather-related damages and loss. Among REALTOR®-homeowners who owed a vacation home the median annual insurance premium was approximately $1,530 with a median deductible of $1,580. Seventy percent of vacation homeowners indicated that they had taken no actions, such as installing storm windows, to mitigate property damage caused by severe weather.

REALTOR®-homeowners generally believe that insurers are using recent hurricane damage to justify premium increases. More than three-quarters of owners (77 percent) disagree with the view that higher insurance premiums are justified given that insurers may face greater future risks and potentially higher payouts due to hurricanes and other natural disasters. At the same time, 92 percent believe premium hikes have been excessive and insurers are using the damage caused by recent hurricanes to justify these increases. A majority of REALTOR®-homeowners (74 percent) agree that homeowners need to bear some of the responsibility for initiating preventative measures to minimize damage in areas prone to natural disasters. More than three-quarters (79 percent) also agree that federal and state governments need to provide assistance to victims of catastrophes such as terrorist attacks or severe weather-related damage to property.

REALTORS® Experience when Working with their Clients

Ninety-five percent of REALTORS® indicated that their clients are aware of the cost of homeowners insurance when in the market to buy a home. Furthermore, 79 percent of REALTORS® report that they have had at least one client postpone or cancel the purchase of a home due to the cost or availability of homeowners insurance.

A majority of REALTORS® agreed that homeowners insurance was a concern for their most recent client. Nineteen percent of REALTORS® indicated that their most recent client decided not to move forward with their home search because of insurance cost or availability. An additional 13 percent of REALTORS® indicated that their most recent clients searched for a lower priced property once they became aware of the cost of property insurance. (Because the survey asked only about REALTORS® most recent client, these are conservative estimates since they do not reflect the concerns and observations among a REALTORS®' entire client base.)

For those buyers that were able to complete a purchase, REALTORS® reported that 42 percent secured homeowners insurance from a private insurance carrier while 31 percent purchased insurance through Florida's Citizens state insurance program. Twenty-four percent did not know what insurance coverage their client selected.

From the perspective of home sellers, there are many reasons underlying the sale of a home. Changes in their family situation, retirement or relocation are some of the most common reasons that sellers offer for putting their home on the market. However, 29 percent of Florida REALTORS® indicated that the cost of homeowners insurance was a consideration in their most recent client's decision to sell their home. The second most frequent reason was a change in the seller's family situation (18 percent).

Eighty-three percent of REALTORS® indicated that their clients thought that high insurance rates were having a "significant" effect on the real estate market. An additional 15 percent reported that their clients thought high insurance rates were having a "moderate" impact on the real estate market.

The experience of REALTORS®, whether as homeowners themselves or as agents for their clients, reflects many of the concerns of all homeowners. REALTORS®, like many other homeowners, have experienced increases in insurance premiums along with higher deductibles. A majority also do not view the rise in premiums as justified by recent weather-related events and disasters. This awareness of homeowners insurance is also evident among the recent home buyer and seller clients of Florida REALTORS®. In fact, in many cases, insurance cost and availability have been a factor in the decision to sell a home or to forego the purchase of a home.

12. Conclusion

The Florida homeowners insurance market is unique due to the state's geography and history of hurricanes. Following the 2004-2005 hurricane season, private insurance and reinsurance companies reduced their coverage in the state and some have exited the state, leaving homeowners with drastically reduced options for insurance. The state owned insurance company, Citizens, has become the largest homeowners insurance company in the state and the only option for many homeowners. The Florida legislature has taken a series of steps to force reductions in the cost of homeowners insurance. Another season of hurricane damage could severely weaken the financial viability of Citizens, leaving all Floridians with an enormous financial burden.

- **Insurance Data Analysis Conclusions**: Between 2004 and 2005, Florida experienced eight hurricanes, which resulted in massive claims by homeowners, and enormous losses for insurance companies writing policies in the state. This unprecedented claims and loss activity led to significant increases in premiums for all homeowners insurance, a reduction in the number of companies offering homeowners insurance, and rapid growth for the state-owned insurance company, Citizens Property Insurance Corporation (Citizens).
- **Housing Data Analysis Conclusions**: Florida's housing market is the story of two states; before the boom and after the boom. Florida was one of the hottest real estate markets in the country during the recent housing boom. However, once the market dropped, it dropped the hardest in Florida. In the second quarter of 2007, Florida home sales fell by 41.3%, composed to 10.8% nationwide over the same time period.
- **Survey Research Conclusions**: The survey research clearly shows just how unique Florida is when it comes to homeowners insurance issues. The perceptions of Florida REALTORS® and voters is that insurance premiums have risen significantly over the past three years, the price and availability of this insurance has had a real and negative impact on real estate markets in the state, and that the federal government must take on a stronger role to ensure the affordability and availability of insurance in disaster-prone areas.

[i] See http://server.iii.org/yy_obj_data/binary/771395_1_0/PCI%20Florida%20Legislative%20Reform%20Analysis.pdf.

[ii] See http://www.myfloridainsurancereform.com/docs/finalreport.pdf.

[iii] See http://www.figafacts.com/FIGA%20Annual%20Report%202006.pdf. Vesta Fire and Casualty, a Texas-domiciled insurer, was liquidated in August 2006. According to FIGA, all 91 claims received from the company were automobile claims. Randy Diamond, "Ill Winds Blows for Once-High-Flying Insurer," Palm Beach Post, April 1, 2007.

[iv] Tom DeMartini, "Florida P/C Insurer Vanguard Fire & Casualty Co. Ordered into Liquidation," A.M. Best Newswire, March 26, 2007.

[v] See http://www.insurancejournal.com/news/southeast/2006/06/07/69259.htm; Miami Herald, March 16, 2007; "Insurers' Proposed Rate Cuts Fall Short," Herald Tribune, April 24, 2007.

[vi] Tom Zucco, "Tower Hill Joins Flight from Coastal Insurance Market," St. Petersburg Times, February 2, 2007.

[vii] "Florida Approves 16% Rate Hikes For USAA," BestWire Service, December 22, 2006.

[viii] Brian Neill, "Happy Thanksgiving, You're Canceled!: Insurance Company Sends Greeting Card, Terminates Policy," Bradenton Herald, November 17, 2006.

[ix] Tom DeMartini, "First Floridian Non-renewing Large Number of Homeowners Policies," A.M. Best Newswire, April 13, 2007.

[x] Lavonne Kuykendall, "Chubb to Offer Flood Insurance for Some Upscale Coastal Customers," Wall Street Journal Abstracts, December 21, 2006.

[xi] Rick Cornejo, "Hearing Set for Proposed Florida Homeowners Rate Increase," A.M. Best Newswire, September 22, 2005