

Earthquake Insurance & Retrofit Choices for Low-Rise, Wood-Framed Condominiums

As discussed in the article “Earthquake Retrofits: Solutions for Low-Rise, Wood-Framed Condominiums,” many condominium buildings are more vulnerable to earthquakes than are single-family dwellings. Some homeowners insurance carriers are insisting that homeowners associations include coverage in their policies for earthquake damage, or even requiring that vulnerable buildings be retrofitted to better withstand earthquakes. Homeowners associations may generally choose between three options in dealing with the threat of earthquake damage:

Option #1 — Take no action. The 1994 Northridge earthquake rendered many condos uninhabitable. Without earthquake insurance, the unit owners had to pay for the entire cost of replacing their units. Many buildings that were not insured were simply abandoned after the Northridge quake. The losses were felt not only by individuals whose homes were destroyed, but by home buyers throughout the state as lenders who suffered losses proceeded to raise mortgage interest rates overall.

Option #2 — Purchase earthquake insurance. For individual associations, this can be a good short-term option. However, the deductible for many (if not most) earthquake insurance policies is 15% of the building’s insured value, costing many thousands of dollars. Few people have 15% of their home’s value in savings, and it may be difficult to secure additional mortgage proceeds to cover this significant deductible expense.

Option #3 — Retrofit your building to better resist earthquake forces. For most buildings, this is the best long-term option. The investment in a retrofit can make the difference between having a building that is habitable after an earthquake and having a pile of debris. It can also reduce or eliminate insurance costs.

Choosing insurance over retrofitting the building is more complicated than looking only at the monetary costs involved. Let's say you are “lucky” and your association has earthquake insurance when The Big One hits. Great, you get to rebuild! (At least in theory.) But where are you going to live in the meantime? Some Northridge residents were displaced as long as *two years* while waiting for their homes to be rebuilt. You might also lose all your personal property if your building collapses. Insurance may cover part or all of such a loss, but many of us have heirlooms that simply cannot be replaced. Retrofitting could make the difference between having a habitable unit that merely needs some drywall patching after an earthquake and having to pay a very large deductible and relocate while the unit is rebuilt. Moreover, experience has shown that even where earthquake coverage is secured, insurance proceeds are sometimes insufficient to cover the actual cost of rebuilding.

What you can do:

- **Educate yourself.** A web search on “earthquake safety” or “earthquake retrofit” will turn up days’ worth of material to study. Bay Area Retrofit’s website (www.bayarearetrofit.com) is a great resource and has links to many related sites. And see my own site (www.shearwalls.com) for a more thorough coverage of condo retrofit and insurance issues.
- **Buy earthquake insurance.** If your complex has “weak story” or “soft story” construction, urge your association to buy master earthquake insurance. Coverage is also available for individual unit owners even if your homeowners association does not carry a master policy.
- **Retrofit your building.** For most buildings, this is the best long-term option. Sadly, people keep dying in earthquakes because humans tend to focus on short-term implications.

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