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REAL ESTATE

Insurers refusing to cover older roofs

Policy shift causing complications or even derailing home sales



Marsden Rodon clears the walkway in front of the home he rents in a neighborhood southeast of downtown Greeley after a severe hailstorm moved over the area in Greeley on May 29. RJ SANGOSTI — DENVER POST FILE

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Insurers haven't broadly cut off coverage along the Front Range as weather-related claims rise, and they haven't pulled out of the state entirely, like in California and Florida. But they increasingly are making demands that can complicate and even derail home sales.

"Insurance providers en masse have decided that if the roof is more than 10 years old we won't insure it," said Matt Metcalf, a managing broker at Mile High Home Pro, which is a real estate and mortgage brokerage.

Current owners aren't being cut off. Rather, buyers can't get insurance on a home with an older roof unless it is replaced. Or if they do get a quote, the premiums are so high lenders can't finance the full amount needed because there is not enough money to go toward the mortgage payment.

In the past, the age of a roof usually didn't become an issue until it topped 20 years. And if there was damage on younger roofs, insurers were willing to accept a repair instead of a full replacement. Metcalf said.

But Metcalf has had two recent transactions where the roof had to be replaced unexpectedly, requiring some tough negotiations between the two sides to resolve the issue.

Who pays for a replacement roof often comes down to who has more bargaining power, and the inability to obtain insurance coverage has the potential to kill deals, agents report.

"Get the conversation going early to make sure it is insurable. Unless it is a hot and desirable house, most buyers won't take on a roof replacement in a transaction," said Cooper Thayer, a broker associate with the Thayer Group in Castle Rock.

More frequent and damaging hail storms and wind events have resulted in more home and auto claims in Colorado, a state that ranks second in the country for hail risk. Add rising claims from wildfires, Colorado now ranks sixth in the country for the premiums homeowners pay to insure their properties. "Right now property insurance is a major part of the conversation with home sales, and we are talking to Realtors," said Carole Walker, executive director of the Rocky Mountain Insurance Information Association in Littleton. "Roofing age is a risk factor that will vary by company based on individual underwriting guidelines, however, 10 years can be a benchmark for asphalt roofs."

When replacing a roof, she recommends homeowners go with impact-resistant shingles. They cost more upfront, but many insurers offer a discount for installing more durable shingles. Although not bulletproof, the roofs hold up better against hail, reducing the need to file claims and pay deductibles.

Often the damage from storms is hidden beneath the singles in the felt layer, which can result in leaks if damaged. Storms have become so frequent that some insurers just assume a roof with standard shingles has sustained damage.

"I have gotten much more aggressive when writing offers," Metcalf said. "Ask the age of the roof before you write the offer."

Buyers often aren't in the financial position to pay for a new roof, given that coming up with a downpayment and the other costs associated with a purchase have stretched them.

Sellers could file a claim, but if the roof is still in good shape, it might get rejected. And if a buyer can't find coverage unless the roof is replaced, it creates an impasse.

Even if an insurer allows for a replacement before a sale, if the policy is actual cash value rather than replacement cash value, the insurer will pay out the depreciated value of the roof. The older the roof, the more the owner will have to provide out of pocket.

"A lot of homeowners can't come out of pocket with \$8,000 to \$10,000 plus their deductible. And this is after they have been paying insurance premiums the whole time," said Dustin Pitney, owner of Sky Manor Roofing & Exteriors in Thornton and a board member of the Denver Metro Association of Realtors.

Given the runup in home prices since 2013, most sellers should have enough equity to cover replacement costs by deducting those from the sales price. They can leave the buyer in charge of the replacement, but their proceeds will be less.

The website InchCalculator places the average cost of a 2,000-square-foot roof in the U.S. at \$14,000. Costs on larger and more complicated roofs can be two to three times that.

What if the buyer wants to go with impact-resistant shingles as the insurance industry advises, seeing it as a way to head off problems in the future? Metcalf said one compromise is to have the seller pay for the standard roof replacement while the buyer pays for the upgraded shingles. That adds another level of haggling to a home sale, which already has plenty.

Getting a roof inspection is something that should be done before listing a home, Pitney advises.

For starters, if a potential buyer can't find coverage because of existing damage, it could block a sale, wasting time in a market that continues to shift in favor of buyers.

And if the seller decides to keep the home, a claim in a future storm may get denied if the damage from a prior storm hasn't been dealt with.

"Get your roof inspected, especially if you have any inkling there is damage," he advised.

Roofing contractors said good roofs with years of life left are being replaced ahead of schedule to allow insurers to reduce their risk going forward. But that clogs up landfills and adds unnecessary costs.

"If they force you to put a new roof on first, they know the new roof will withstand the first five to 10 years of storms. They are passing the buck," said Arnold Wehmas, owner of Denver-based Colorado Roof Inspection Services.

The Colorado Division of Insurance hasn't received specific complaints about forced roof replacements on purchased homes, spokesman Vincent Plymell said.

However, the issue appears part of a larger concern the division is studying — the availability and affordability of homeowners' insurance in Colorado. Those two concerns have come up frequently in town halls the division has hosted in person and virtually over the past year.

"In these recent town halls, Commissioner (Michael) Conway has talked about measures he wants to pursue to help with the availability of homeowners insurance as well as tackling cost concerns, including possible legislation next year that will force insurers to use risk models that would account for mitigation efforts that homeowners undertake, while also requiring insurers to explain any discounts available for that mitigation," Plymell said in an email.

Thayer said the real estate industry is aware that Colorado is not as profitable a state for insurers as in the past. There are reports of some communities, metro districts and homeowners associations being blacklisted from coverage, especially when it comes to fire risk.

It is important that both sellers and buyers realize roof replacement and insurance coverage could be sticking points going into a transaction and prepare accordingly, Metcalf adds.

With each passing month, buyers are gaining the upper hand as the inventory of unsold listings grows. Given how much income they must devote to housing payments, buyers are getting pickier about what they will tolerate and making more demands on repairs and replacements, hoping to avoid surprises.

Besides roofs, many of the HVAC and other systems on homes built in the early 2000s during the housing boom need replacement, Thayer said. And sewer lines are an ongoing concern.

"Homes are not selling themselves right now. You need to address those potential concerns before they are brought up," Thayer said.

